Best Canadian Stocks to Buy for Passive Income

Description

Canadian dividend investors are seeking the best TSX stocks to buy for TFSA portfolios focused on passive income. Companies that are industry leaders with strong track records of dividend growth supported by rising revenue and higher earnings deserve to be on the buy list.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest financial institution with a current market capitalization of $180 billion. It is also one of the top-10 banks in the world based on this metric.

Royal Bank raised its dividend by 11% late last year and increased the payout by another 7% when it reported fiscal Q2 2022 results. Royal Bank investors have received a dividend annually for more than 150 years.

Royal Bank generated $16.1 billion in earnings in fiscal 2021. The first half of 2022 shows the bank is on track to beat that performance with six-month net income of $8.36 billion, up by around 6% over the same period last year. Return on equity remains high at 18.4%.

Royal Bank stock looks undervalued at the current share price near $128. It was above $149 earlier this year. Economic headwinds could slow the pace of revenue and profit growth in the near term, but investors should still see steady dividend expansion.

Long-term Royal Bank investors have enjoyed strong returns. A $10,000 investment in RY stock 25 years ago would be worth close to $188,000 today with the dividends reinvested. Based on the current dividend yield of roughly 4%, that initial $10,000 investment could now generate as much as $7,500 in annual passive income.

Fortis

Fortis is a utility company with $60 billion in assets located in Canada, the United States, and the

Caribbean. Power generation, electricity transmission, and natural gas distribution operations make up the bulk of the portfolio.

Fortis a good stock to buy for passive income. The company gets 99% of its revenue from regulated businesses, so cash flow tends to be reliable and predictable. That is a big reason why Fortis is one of the best dividend-growth stocks in the **TSX Index**. Fortis has raised the dividend in each of the past 48 years.

The current $20 billion capital program is expected to increase the rate base from roughly $31 billion in 2021 to more than $41.5 billion in 2026. Fortis expects this to drive adequate revenue and earnings growth to support targeted average annual dividend increases of 6% through 2025. That's good guidance for investors seeking reliable passive income in an era of economic uncertainty.

Fortis grows through acquisitions as well as development projects. The company added a mergers and acquisitions specialist to the senior ranks last year, so it wouldn't be a surprise to see a new deal emerge in the next couple of years.

The current dividend provides a 3.5% yield.

A $10,000 investment in Fortis stock 25 years ago would be worth about $175,000 today with the dividends reinvested. The original $10,000 would now generate more than $6,000 in passive income if all the previous dividends had been used to buy more shares.

The bottom line on the best stocks to buy for passive income

Royal Bank and Fortis are just two good examples of stocks TFSA investors can buy to get reliable and growing passive income. The TSX Index is home to many great dividend stocks that have increased their payouts annually for decades and would be attractive to buy today for a balanced income portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)

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