2 Oversold TSX Dividend Stocks to Buy for Passive Income

Description

The market pullback appears to have bottomed out, but bargain hunters seeking TFSA passive income can still find top Canadian dividend stocks trading at undervalued prices.

Suncor

Suncor (TSX:SU)(NYSE:SU) fell out of favour with dividend investors after management cut the previously reliable dividend by 55% in 2020. Suncor's peers kept their payouts in place during the crash, and Suncor's share price has underperformed the group ever since.

Looking ahead, the bad news should be in the rearview mirror, and investors now have a chance to buy Suncor at a discount. The board raised the payout by 100% in late 2021 and by another 12% when Suncor announced the first-quarter (Q1) 2022 earnings. These moves brought the quarterly dividend up to a new high of $0.47 per share, and investors should feel comfortable that the payout is safe.

Oil prices are down from US$120 per barrel to the current price around US$88, but this is still very profitable for Suncor. Management is using excess cash in 2022 to pay down debt and buy back the cheap stock. These efforts will deliver long-term rewards for shareholders. As net debt drops, investors should see the base dividend increase or at least receive bonus payments based on quarterly cash flow results.

The recent exit of the chief exectuive officer (CEO) and changes on the board of directors have prompted a review of non-core assets. Suncor could decide to sell its retail business that includes roughly 1,500 Petro-Canada locations. Analysts speculate the group might sell for up to $10 billion. If that happens, investors could receive a generous special distribution.

Suncor trades for $40 per share at the time of writing. The stock was $44 in early 2020 before the pandemic when oil traded at just US$60 per barrel. Investors who buy at the current price can pick up a 4.6% dividend yield.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is up more than 10% in the past month, but the stock still looks undervalued and offers investors an attractive 5.1% dividend yield.

Bank stocks took a beating in recent months, as investors started to worry that a meaningful recession is on the way. There is good reason to expect an economic downturn, and the banks could see revenue growth slow and loan losses expand, as soaring interest rates force borrowers to use more of their income and savings to pay debt. This is occurring while inflation remains high, adding a double hit to business and household budgets.

The general consensus among economists is that we are likely headed for a short and mild recession. The jobs market remains robust, so as long as people are earning income, there shouldn't be a surge in bankruptcies. If we see a more pronounced downturn and unemployment surges, however, the banks could be in for a rough ride.

That being said, Bank of Nova Scotia's current share price probably reflects a worse outcome than the economy is likely to encounter in the next couple of years. At the same time, rising interest rates tend to boost net interest margins at the banks, and this can go a long way to help offset some of the higher loan losses that will likely occur.

Bank of Nova Scotia has a strong capital position with a common equity tier-one (CET1) ratio of 11.6%. That means the bank has ample capital to ride out a downturn and can deploy excess funds to make acquisitions, buy back stock, or raise the dividend. Bank of Nova Scotia increased its share-repurchase target by 50% earlier this year to 36 million.

The bank generated $5.49 billion in net income in the first half of fiscal 2022 compared to $4.85 billion in the same period last year, so the bank is on track to top the 2021 results. Bank of Nova Scotia raised the dividend by 11% late last year and by another 3% when the bank reported the fiscal Q2 2022 results.

The bottom line on top stocks to buy for passive income

Suncor and Bank of Nova Scotia pay attractive dividends that should continue to grow. If you have some cash to put to work in a TFSA focused on passive income, these stocks look cheap today and deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:BNS (Bank Of Nova Scotia)

4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. aswalker
2. kduncombe

Category

1. Dividend Stocks
2. Investing

Date
2025/09/01
Date Created
2022/08/16
Author
aswalker