2 Top TSX Dividend Stocks to Buy for TFSA Passive Income in Retirement

Description

Pensioners are searching for quality Canadian dividend stocks to buy inside their Tax-Free Savings Account (TFSA). The market pullback is giving retirees a chance to buy some of the best TSX dividend stocks at undervalued prices.

TD

TD (TSX:TD)(NYSE:TD) trades near $87 per share at the time of writing compared to $109 earlier this year. Canada's second-largest bank by market capitalization just reported fiscal Q3 results that beat analyst expectations. The positive performance shows the strength of TD's retail banking business in both Canada and the United States and gives investors a pretty good idea of how much the rise in interest rates can boost net interest margins. This is important, because higher rates are also going to result in a slowdown in the housing market and could drive up loan defaults in the next couple of years.

TD generated adjusted net income of $3.81 billion in the quarter ended July 31, 2022, compared to $3.63 billion in the same period last year. TD finished the quarter with a common equity tier-one ratio of 14.9%. That means the bank has significant excess cash to cover potential losses during a recession as well as make acquisitions, buy back stock, or raise the dividend.

TD is using a good chunk of the funds to boost its presence in the United States. The bank is in the process of buying **First Horizon**, a retail bank, for US$13.4 billion, and **Cowen**, an investment bank, for US$1.3 billion. The deals will make TD a top-six bank in the United States and strengthen the capital markets operations.

TD stock looks cheap today and is good to buy for reliable and growing passive income. Investors get a 4% yield on the dividend and should see distribution growth continue in line with the long-term trend of about 11% per year.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) has raised its dividend in each of the past 48 years, and management plans to boost the payout by an average of 6% annually through at least 2025. This is great guidance in an era of economic uncertainty. The current dividend yield might be a bit low at 3.6%, but the dividend growth will steadily increase the return on the initial investment.

Fortis owns a $60 billion portfolio of power generation, electricity transmission, and natural gas distribution assets in Canada, the United States, and the Caribbean. The company gets 99% of its revenue from regulated businesses. This means cash flow tends to be predictable and reliable. Fortis is working on a $20 billion capital program that will increase the rate base by about $10 billion over a five-year period. The resulting revenue growth is expected to support the steady dividend increases.

Fortis is a good stock to buy of you want a defensive pick for a TFSA portfolio focused on passive income. The share price looks reasonable today at $59. Fortis was as high as $65 earlier this year.

The bottom line on top TSX stocks to buy for passive income

TD and Fortis pay attractive dividends that should continue to grow at a steady pace. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

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Date
2025/08/27
Date Created
2022/08/26
Author
aswalker