TFSA Investors: 2 Top TSX Dividend Stocks to Buy Now for Tax-Free Passive Income

Description

The market pullback is giving Tax Free Savings Account (TFSA) investors focused on passive income another opportunity to buy great Canadian dividend stocks at undervalued prices.

BCE

BCE (TSX:BCE)(NYSE:BCE) has long been a favourite pick among retirees and other investors seeking passive income. That remains the case due to the reliable dividend growth and the above-average yield. BCE stock, however, has also been a top performer for retirement investors seeking attractive total returns.

In fact, a $10,000 investment in BCE 25 years ago would be worth about $190,000 today with the dividends reinvested.

BCE remains a good stock to buy for a TFSA focused on passive income and for a self-directed RRSP. The company enjoys a wide competitive moat and has the financial firepower to defend its position in the market. BCE is spending $5 billion in 2022 on network upgrades, including the connection of 900,000 more customers to fibre optic lines and the expansion of the 5G network. These initiatives help attract new customers while keeping existing ones up to date with the latest technology. Faster networks and greater broadband capacity open the door for new services and plan upgrades.

BCE has raised its dividend by at least 5% annually for the past 14 years. Investors should see that trend continue. Management says the company is on track to meet its 2022 financial guidance of 2-7% adjusted earnings-per-share growth. Free cash flow growth is targeted at 2-10% compared to 2021.

BCE is a good defensive stock to buy for an income portfolio and looks cheap right now near $63.50. The shares traded as high as $74 earlier this year. Investors who buy at the current price can pick up a solid 5.8% dividend yield.

TD Bank

TD (TSX:TD)(NYSE:TD) is Canada's second-largest bank with a current market capitalization of$155 billion. The bank is best known for its Canadian retail banking operations, but the U.S. business actually has more branches and is going to get a lot bigger in the coming months. TD is in the process of buying **First Horizon** for US$13.4 billion. The deal will add more than 400 branches in the southeastern states. TD's current American operations run from Maine down the east coast to Florida. After closing, the acquisition will make TD a top-six retail bank in the American market.

TD is also expanding its capital markets business with the purchase of **Cowen**, a U.S. investment bank, for US$1.3 billion.

Investors should benefit from the expanded U.S. exposure over the coming years. Rising interest rates should boost net interest margins to help offset the uptick in loan defaults caused by higher interest expenses on loans and mortgages. A recession is widely expected in 2023, but an economic rebound should follow and that will be good news for the banks.

TD remains very profitable, even in the face of some economic headwinds. The bank generated adjusted net income of $11.36 billion through the first nine months of fiscal 2022 compared to $10.78 billion in the same period last year.

TD finished the fiscal third quarter (Q3) with a common equity tier-one (CET1) ratio of 14.9%. This is a measure of the bank's capital strength to ride out tough times. The government requires the Canadian banks to have a CET1 ratio of at least 10.5%, so TD is sitting on significant excess cash. A good chunk of it will be used for the acquisitions.

TD is a dividend-growth star. The bank raised the payout by 13% for fiscal 2022 and has a compound annual dividend-growth rate of better than 10% over the past two decades. At the current share price, investors can get a 4.1% dividend yield.

TD is a good stock to buy today for contrarian investors. The shares look oversold at $85 compared to the 2022 high around $109.

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

BCE and TD 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 deserve to be on your radar.

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