TFSA Passive Income: 1 Defensive Dividend Stock to Buy Now

Description

The market correction could pick up steam in the coming months amid rising fears that a recession will hit corporate revenues and reduce earnings forecasts. In this environment, it makes sense for investors to consider defensive dividend stocks when looking for new stocks to buy for Tax-Free Savings Account (TFSA) passive income.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) operates power generation, electricity transmission, and natural gas distribution businesses in Canada, the United States, and the Caribbean. The assets are primarily regulated, meaning revenue and cash flow tend to be predictable and reliable, especially since they provide essential services.

Companies and households need electricity and natural gas regardless of the state of the economy, so the revenue stream should hold up well, even if the Canadian and U.S. economies go through a meaningful downturn.

Fortis grows through acquisitions and development projects. The company hasn't made a large purchase in more than five years, but it wouldn't be a surprise to see Fortis do a deal if valuations drop across the utility sector. Fortis added a mergers and acquisitions specialist to the senior ranks last year. Consolidation is expected to continue in the industry, and Fortis has a long history of being a buyer.

For the moment, the $20 billion capital program is expected to boost the rate base by a compound annual rate of about 6% over five years through the end of 2026. Fortis expects the resulting revenue and cash flow growth to be high enough to support average annual dividend increases of 6% through at least 2025. This is good guidance in the current era of economic uncertainty and is an important point to consider for investors seeking reliable and growing passive income. The board has raised the payout in each of the past 48 years, so there is reason to believe the company will deliver on its dividend-growth target.

Fortis isn't immune to market corrections, but the stable dividend growth should help put a floor under the stock in the event the broader equity market tanks.

Fortis currently trades for less than $57 and offers a decent 3.8% dividend yield. The stock was as high as $65 in May, so there is upside attractive potential on the next rebound.

Rising interest rates are driving down bond prices and pushing up bond yields. This makes borrowing more expensive for utility companies that often carry significant debt. At the same time, returns on fixed-rate investments, such as Guaranteed Investment Certificates (GIC) are rising. GICs now offer yields above 4%. This can put pressure on demand for telecom and utility stocks.

The bottom line on top defensive dividend stocks

Fortis is a good stock to buy if you want reliable and predictable dividend growth through an economic downturn. The share price could fall further, but long-term buy-and-hold investors have done well when they purchased Fortis stock on dips.

A $10,000 investment in Fortis 25 years ago would be worth about $170,000 today with the dividends reinvested. At the current 3.8% yield, that would generate $6,460 in annual passive income.

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