2 Oversold TSX Dividend Stocks to Buy Now for Passive Income

Description

The market correction is giving retirees and other investors seeking passive income a chance to buy top Canadian dividend stocks at undervalued prices.

Enbridge

Enbridge (TSX:ENB) is a leading player in the North American energy infrastructure industry with oil and natural gas pipelines in Canada and the United States. The company also has natural gas distribution utilities, oil export facilities, and a growing renewable energy portfolio focused on solar, wind, and geothermal installations.

Looking ahead, Enbridge sees opportunities in liquified natural gas (LNG) exports, carbon capture, and hydrogen. The company recently announced plans to take a 30% stake in the Woodfibre LNG project in British Columbia. The facility is expected to be in service in 2027. LNG demand is on the rise across the globe, as countries without their own domestic sources look to secure supplies for power production. Canada and the United States have ample untapped natural gas reserves that can be produced at relatively low cost and sold to high-priced international buyers.

Enbridge stock trades near $53 per share at the time of writing. That’s down from more than $59 a few months ago, even as oil and natural gas demand remains high. The company’s revenue stream primarily comes from transporting fuel, not selling it, so the changes in commodity prices have limited direct impact on cash flow. As a result, the drop in the share price appears overdone, and investors can now get a 6.5% dividend yield.

Royal Bank

Royal Bank (TSX:RY)(NYSE:RY) is Canada’s largest financial institution and one of the top-10 banks in the world based on market capitalization.

The fiscal third-quarter (Q3) 2022 results came in weaker than the same period last year largely due to challenging environments in the capital markets group. The division tends to have more volatile revenues than the other segments, and Royal Bank's balanced operations enable it to ride out the rough market conditions. The bank has strong representation in personal banking, commercial banking, wealth management, capital markets, insurance, and investor and treasury services.

For the first nine months of fiscal 2022, the company's return on equity (ROE) was a solid 16.7%. Even the Q3 ROE of 14.6% is still strong. Royal Bank also finished fiscal Q3 with a common equity tier-one (CET1) ratio of 13.1%. This is a measure of the capital the company has on hand to get it through a crisis. The Canadian banks are required to have a CET1 ratio of 10.5%, so Royal Bank is sitting on significant excess cash that it can deploy through acquisitions, share buybacks, or dividend increases.

The board increased the dividend by 11% near the end of last year and by another 7% when the bank announced Q2 2022. This would suggest the management team is comfortable with the revenue and profits outlook heading into next year, even with the current economic uncertainty.

Investors who buy the stock at the current price near $129 per share can get a 4% dividend yield. Royal Bank traded above $149 at one point in 2022, so there is decent upside opportunity on a rebound.

The bottom line on top stocks to buy for passive income

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

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