Should You Buy TD Stock or Suncor Stock for Passive Income?

Description

The market correction is giving Tax-Free Savings Account (TFSA) investors seeking passive income a chance to buy top Canadian stocks at discounted prices. Let's take a look at two TSX giants to see if one is now undervalued and deserves to be on your buy list.

TD Bank

TD (TSX:TD) trades for $87 per share at the time of writing and offers investors a 4% dividend yield. The stock was as high as $109 at the beginning of the year, so there is good upside opportunity for the share price along with the expected growth in the dividend.

TD raised its dividend by a compound annual rate of 11% since the mid-1990s. Investors received a 13% dividend increase for fiscal 2022 and another big hike should be on the way for 2023. TD remains very profitable and should continue to generate strong earnings to support higher dividends, even as the Canadian and U.S. economies are likely headed into a recession in the coming quarters.

TD is betting big on the American market with two new acquisitions that will make it a key player in the United States banking sector. The company is spending US$13.4 billion to buy **First Horizon**, a retail bank with more than 400 branches located primarily in the southeastern states. TD already has an extensive branch network running from Maine to Florida, so the deal should be a good fit and will make TD a top-six bank in the United States. TD is also buying **Cowen**, an investment bank, for US$1.3 billion.

Suncor

Suncor (TSX:SU) underperformed its large oil sands peers in the past two years. Investors punished the stock after management slashed the dividend at the beginning of the pandemic. As oil prices rebounded through 2020 and 2021 Suncor used the excess cash to reduce debt and buy back stock. Management finally raised the dividend by 100% late in 2021 and increased the payout again by another 12% this year, bringing the distribution above the previous high.

More dividend increases should be on the way, as the company has continued to reduce debt and repurchase shares using the cash generated this year from high oil prices. Suncor is also raising capital through the sale of non-core assets. It recently announced a deal to sell the wind and solar renewable energy assets for $730 million and is evaluating the possibility of monetizing the retail business that includes roughly 1,500 Petro-Canada service stations. Analysts speculate the division could fetch as much as $10 billion.

Suncor stock trades for $43 per share at the time of writing. That’s close to where it was before the pandemic when West Texas Intermediate (WTI) oil was just US$60 per barrel. At the time of writing, WTI sells for US$84 per barrel. Fuel demand is rising, as airlines ramp up capacity and commuters return to offices. Oil producers are struggling to raise output due to a lack of investment over the past two years. In this environment, oil prices should remain elevated for some time.

Investors could see a generous increase to the base dividend for 2023 and bonus dividends based on quarterly cash positions. Suncor’s base dividend currently provides a 4.3% yield.

Is one a better bet?

TD and Suncor both pay attractive dividends that should continue to grow. The stocks appear oversold right now and should be solid picks for a TFSA focused on passive income.

Suncor will probably boost its payout by more in the near term, so investors seeking yield might want to make the energy stock the first pick. I would probably split a new investment between the two stocks for a buy-and-hold portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SU (Suncor Energy Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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
2025/07/26
Date Created
2022/10/19
Author
aswalker