Better Buy: Fortis Stock or TD Stock?

Description

Retirees and other investors seeking reliable passive income can now buy top TSX dividend stocks at undervalued prices. The market correction hit utility stocks and bank stocks hard this year. Let's take a look at **Fortis** (TSX:FTS) and **TD Bank** (TSX:TD) to see if one deserves to be on your buy list.

Fortis

Fortis just reported solid third-quarter (Q3) 2022 results and provided a new capital program and dividend guidance for the next five years.

Adjusted net earnings came in at $326 million compared to $296 million in the same period last year. For the first nine months of 2022 adjusted net earnings were $960 million compared to $903 million in 2021, so Fortis is on track to beat the 2021 results.

Fortis is investing $4 billion in 2022 as part of its previous $20 billion capital program. Management just provided a new five-year plan that will see Fortis invest $22.3 billion for the 2023 to 2027 timeframe. Clean energy investments will account for $5.9 billion of that total.

The new capital program is expected to boost the mid-year rate base from $34 billion in 2022 to $46.1 billion in 2027. As revenue and cash flow increase, Fortis now says it expects dividend growth to be 4-6% through 2027. Previous dividend-growth guidance was for average increases of 6% through 2025.

Fortis raised the dividend by about 6% in 2022. This was the 49th consecutive year of dividend growth.

Fortis stock trades near $52 at the time of writing. The share price was as high as $65 earlier this year, so there is an opportunity to buy the stock on a meaningful dip. Investors can now get a 4.3% dividend yield and simply wait for the stream of dividend increases to boost the return on the initial investment.

TD Bank

TD trades for $87 per share at the time of writing compared to $109 at the 2022 high. The plunge in the share price caught many investors off guard this year and more volatility should be expected as the market tries to predict if a recession is on the way in the U.S. and Canada, and if so, how severe.

Economists widely predict a mild and short economic downturn in 2023 or 2024 caused by aggressive interest rate hikes by the Bank of Canada and the U.S. Federal Reserve. The central banks are trying to drive inflation back down to their 2% targets. Inflation came in at 6.9% in Canada in September. A fixed basket of goods and services in the U.S. costs 8.2% more last month on a year-over-year basis.

In the worst-case scenario, the central banks will trigger a deep recession with heavy job losses and a subsequent plunge in home prices. This would be bad for TD and its Canadian peers who are sitting on large portfolios of Canadian residential mortgages.

The likely outcome is an economic slowdown that eases current labour shortages and causes a controlled decrease in property prices. If things go this direction, TD stock now looks oversold.

TD raised its dividend by 13% for fiscal 2022, and investors should see another decent hike for fiscal 2023. The bank has a strong capital position to ride out a slump and is using a good chunk of its cash hoard to make two strategic acquisitions in the United States to drive future growth.

TD stock currently provides a 4.1% yield.

Is one a better buy?

Fortis and TD pay attractive dividends that should continue to grow. Both stocks appear undervalued right now and deserve to be on your buy list for a Tax-Free Savings Account or Registered Retirement Savings Plan portfolio.

If you only buy one, I would probably make TD the first choice today. Dividend growth at the bank should be higher than at Fortis, and there is probably better potential upside for the stock price over the medium term.

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