Down 20% From the Top, These 2 TSX Stocks Are a Steal Today

Description

Volatile markets bring a lot of opportunities that are hard to find in normal times. Growth stocks, primarily tech names, are down 50-70%, while some defensives have lost 20% of their value this year. It is quite rare when top-quality dividend payers trade so much below their fair values. So, here are two such defensives that have dropped 20% from their respective highs.

Fortis

Utility stocks generally trade weakly in rising-rate environments. As a result, Canada's top utility stock **Fortis** (TSX:FTS) has corrected 20% since May 2022. Notably, as rate hikes are expected to continue for the next few quarters, we may not see a steep surge in FTS soon. However, it looks well placed for the longer term, and one can lock in a decent dividend yield at these levels.

Fortis currently yields 4.3%, higher than broader markets. Its large, regulated operations enable earnings stability, which ultimately warrants stable dividends. As a result, Fortis has increased its shareholder payouts for the last 49 consecutive years, even during the pandemic and the 2008 financial meltdown.

In the last 10 years, Fortis increased its per-share earnings by 4% compounded annually, which is much lower than the broader markets' average. However, utilities generally grow this slowly and focus on stability.

Fortis expects its dividend to increase by 5-7% annually for the next few years. This earnings visibility stands tall and facilitates consistently growing dividends, especially in these uncertain markets.

So, if you are an aggressive growth investor, FTS may not be an apt pick for you. But stable passive income is what you are looking for, Fortis will likely please you for years.

Toronto-Dominion Bank

Canada's one of the biggest banks, **Toronto-Dominion Bank** (TSX:TD) is another name that is currently trading 20% lower from its 52-week highs. Though the stock has recovered from its July lows of late, it still looks attractive from a valuation standpoint.

Toronto-Dominion Bank derives 57% of its earnings from the Canadian retail business, while 29% comes from U.S. retail banking. The rest comes from wholesale business and investments. In the last 10 years, TD managed to grow its net income by 9% compounded annually. Its earnings stability plays well for consistently growing dividends that yield 4%.

TD stands tall among the Big Six Canadian banks in terms of its U.S. presence and credit quality. It has a common equity tier-one ratio (CET1) of 14.9% at the end of the fiscal third quarter of 2022. The ratio indicates the bank's capacity to withstand shocks. Notably, TD has one of the highest CET1 ratios among peers.

TD stock is currently trading at 1.6 times its book value per share, which is lower than its historical average. Peer TSX bank stocks are trading close to the same multiple. So, considering its relatively superior credit quality and scale, this looks like a lucrative opportunity to grab TD stock for the long term.

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