TFSA Passive Income: 3 Undervalued TSX Dividend Stocks to Buy Now

Description

The latest leg of the market correction is providing retirees and other investors seeking quality passive income with a chance to buy top TSX dividend stocks at discounted prices.

TC Energy

TC Energy (TSX:TRP) trades for close to $55 per share at the time of writing compared to $74 in June. The big decline in the share price has occurred amid concerns about soaring costs on the company's Coastal GasLink pipeline. The pandemic, protests, inflation, bad weather and contractor issues have all resulted in soaring costs on the project, which will bring natural gas from producers in northeastern British Columbia to a new liquified natural gas (LNG) facility being built on the B.C. coast. Coastal GasLink is 80% complete and TC Energy expects it to be in mechanical operation by the end of next year. The troubles on the project are frustrating for investors, but the drop in the share price appears overdone.

TC Energy has a $34 billion capital program on the go that will drive revenue and cash flow growth in the next few years. Management still intends to raise the dividend by 3-5% annually over the medium term. That is good news for income investors. The current payout provides a 6.5% dividend yield right now, so you get paid well to wait for a rebound.

BCE

BCE (TSX:BCE) trades near $60 per share at the time of writing. It was as high as $74 this year. The drop doesn't make much sense given BCE's reliable revenue stream, strong balance sheet, and its ability to raise prices to offset increasing costs.

BCE gets the majority of its revenue from mobile and internet subscriptions. These are essential services, so people and businesses are unlikely to cut them during difficult economic times. BCE might see sales of new phones drop and the media group could face reduced ad spending across the radio, TV, and digital assets, but these segments represent a relatively small part of the overall revenue mix.

BCE is on track to hit its financial targets in 2022. This should support a dividend increase in 2023. BCE has increased the payout by at least 5% annually for the past 14 years.

At the current share price, investors can get a 6.1% dividend yield.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) reported fiscal 2022 adjusted earnings that topped the strong 2021 results. Despite the solid performance, the stock is down 28% in 2022. Investors are concerned that a global recession is on the way and could hit profits in both the Canadian and international operations. Bank of Nova Scotia has a large presence in Latin America, with a core focus on Mexico, Peru, Chile, and Colombia. These countries rely on strong commodity markets for revenue, specifically oil and copper. The international group performed very well in fiscal 2022, and that trend could continue next year, even in the midst of an economic downturn.

In Canada, economists broadly expect a mild and short recession to occur in 2023. This could put pressure on revenue and drive up loan losses, but the plunge in Bank of Nova Scotia's share price is probably excessive. At the current multiple of 8.1 times trailing 12-month earnings, the stock appears undervalued, and investors can now get a 6.3% dividend yield.

The bottom line on top stocks to buy for passive income

Additional downside could be on the way in the near term, but TC Energy, BCE, and Bank of Nova Scotia all pay attractive dividends that should continue to grow. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

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