Passive Income: 3 Dividend Stocks That Are Too Cheap to Ignore

Description

The stock market correction is giving investors a chance to buy top TSX dividend stocks at discounted prices for portfolios focusing on passive income.

BCE

BCE (TSX:BCE) is Canada's largest communications company with a current market capitalization of close to $54 billion. The company gets the majority of its revenue from mobile and internet subscription services. These are needed by households and businesses in all economic conditions, so BCE should be a good stock to own through a recession, although its media division could see a drop in advertising revenue if corporate clients decide to cut marketing expenditures, as they did during the pandemic.

BCE had a good 2022. The company is expected to report full-year results that met revenue, earnings, and free cash flow growth guidance. This should result in a dividend increase for 2023. BCE has raised the payout by at least 5% in each of the past 14 years. Another hike in that range is likely on the way.

BCE stock trades for close to $60 per share at the time of writing compared to $74 at the 2022 high. The pullback appears exaggerated, and investors can now pick up a solid 6.1% dividend yield. That's still quite a bit higher than the top Guaranteed Investment Certificate available from the banks.

CIBC

CIBC (TSX:CM) just raised its dividend for the second time in 2022. The new quarterly distribution of $0.85 per share provides an annualized yield of 6.25% at the current share price near $54. CIBC traded as high as $83.75 in 2022 and is currently down by 27% this year.

Investors are concerned that a recession in 2023 could drive up unemployment and trigger a wave of mortgage defaults. CIBC has a large residential mortgage portfolio relative to its size, so a crash the property market would probably hit CIBC harder than its peers.

That being said, the stock appears oversold. At the current multiple of 8.1 times trailing 12-month earnings, the stock is priced for a financial crisis.

CIBC generated solid fiscal 2022 results, considering the challenging conditions in the second half of the year. Adjusted net income came in at $6.6 billion in fiscal 2022 compared to $6.7 billion last year. Management expects earnings to grow in 2023, despite the headwinds and most economist predict a short and mild recession.

Fortis

Fortis (TSX:FTS) gets 99% of its revenue from regulated utility businesses, including power generation, electricity transmission, and natural gas distribution assets. These are essential services, so revenue and cash flow tend to be predictable and reliable, even during an economic downturn. As such, Fortis should be a good stock to buy if you are concerned about a 2023 recession being deeper or longer than what the economists predict.

Fortis is working on a $22.3 billion capital program that will significantly increase the rate base through 2027. Cash flow is expected to rise in step, and this should support planned dividend increases of 4-6% per year over this timeframe.

Fortis increased the distribution in each of the past 49 years. The current yield is 4.1%.

Fortis stock trades for less than $55 per share at the time of writing compared to $65 at the 2022 high, so investors have a chance to buy FTS stock on a nice dip.

The bottom line on top stocks to buy for passive income

BCE, CIBC, and Fortis all 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.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:FTS (Fortis Inc.)

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