2 Stocks to Buy in 2023 for TFSA Passive Income

Description

With markets struggling to find their footing in the first few trading sessions of the year, passive income investors may wish to pick up the fallen dividend payers while yields are still on the higher end of the historical range. Many are worth stashing in a Tax-Free Savings Account (TFSA).

Indeed, passive-income investors should be happy that there are cheaper stocks that pay swelling yields. Although GICs (Guaranteed Investment Certificates) are more competitive, with yields well north of 4% on certain one- to two-year issues, I still think young TFSA investors should not pass up stocks while they're in the gutter.

Seeking value in cheap dividend payers with nearly 7% yields

Not all stocks are on sale. Some names deserve to have taken a beating in 2022. With more pain on the horizon, TFSA investors should be patient with buying the dip. For instance, if you've just contributed your $6,500 annual contribution, you may wish to invest $500-$1,000 every month or so.

That way, you won't be dreading the next pullback in markets. If anything, a revisitation of these bear market lows will provide better entry points for new TFSA investors and higher prospective returns for those who take advantage of the dips.

Here are two passive-income payers atop my TFSA shopping list for 2023.

TFSA passive-income stock #1: Enbridge

Enbridge (TSX:ENB) is a pipeline play that's stalled out in recent weeks alongside the rest of the market. Down around 10% from its 2022 highs, Enbridge is an intriguing option for those who want to bet on Canadian energy without having to endure the steep ups and downs of oil prices. Indeed, midstream companies are tied to the oil patch, but the lower dependency on day-to-day energy moves makes for stable cash flows.

The company's payout has survived worse times. The current dividend yield of 6.71% is quite swollen.

Whenever you've got a yield flirting with 7%, extra due diligence is required. Such a payout is stretched, but not all stretched yields are destined for the chopping block.

With a shareholder-friendly management and a history of continuing to raise dividends through tough conditions (look no further than 2020), ENB stock is a dividend heavyweight that TFSA investors should not shy away from. As shares slip, the yield rises, beckoning in those hungry for dividends.

At 19.86 times trailing price to earnings (P/E), ENB stock is a relatively affordable way to score a very healthy, growing payout.

TFSA passive-income stock #2: SmartCentres REIT

It's been tough sledding for **SmartCentres REIT** (TSX:SRU.UN), which finds itself down around 18% from its 52-week high. Indeed, recession woes are to blame for the REIT's latest fumble. Still, I think many are discounting the real estate investment trust's (REIT's) resilience. It held up way better than its retail REIT peers in 2020 when lockdowns spread. Arguably, a 2023 recession seems more manageable than the widespread pandemic lockdowns that led to the coronavirus recession. At writing, shares trade at just shy of five times P/E — that's cheap!

In any case, Smart has a 6.9% yield that's about as safe as 7% yields come. Indeed, Smart and Enbridge may have the most secure dividends and distributions near the 7% level. Though no dividend is 100% safe, both firms have cash flows resilient enough to power payouts through another year of headwinds.

For TFSA-using, passive-income investors, that's about all you could ask for in a security.

CATEGORY

1. Investing

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2. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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