



## Better Buy for Passive Income: Suncor Stock or TD Stock?

### Description

**Suncor** ([TSX:SU](#)) and **TD Bank** ([TSX:TD](#)) are top [TSX](#) dividend stocks to consider in 2023 for passive income. Both stocks are now down considerably from their 12-month highs, and investors are wondering if one might be good to buy today for an income portfolio.

### Suncor

Suncor trades near \$40 per share at the time of writing compared to \$53 last June. The pullback has occurred amid a plunge in oil prices from the 2022 highs. West Texas Intermediate oil currently trades near US\$74 per barrel compared to 12-month peak above US\$120.

A battle in the oil market is expected to continue between the bulls and bears. Pundits who expect oil to surge back above US\$100 in 2023 say tight supplies and rising fuel demand will ultimately drive prices higher, even if the global economy enters a recession. Airlines are ramping up capacity to meet strong travel demand and companies will require more employees to return to the office this year. China is easing up on its covid restrictions, and the United States has to refill its strategic reserves after flooding the market with oil in recent months to drive down gasoline prices. These factors should all support higher oil demand in the coming 12 months.

Oil bears say a global recession will be deeper and last longer than expected. This could curb oil demand to the point where the market will be oversupplied. Despite saying they are not a hurry to boost output, many market watchers think oil producers are going to try to take advantage of the high prices while they last, and the extra supply could drive prices down, even more as demand fades.

Where the market will actually go this year is anyone's guess, but the bulls probably have a stronger case, and the downside risk to oil prices at this point is likely smaller than the upside potential.

Suncor used its excess cash in in 2021 and 2022 to reduce debt and aggressively buy back stock. This trend is expected to continue in 2023. The board also raised the dividend significantly to recover the cut made in 2020 and has now pushed the payout to a new high. As debt costs fall and the stock float shrinks, more cash should be available for dividend increases and special distributions this year.

If oil surges, the stock could quickly return to \$50 per share. In the meantime, investors can pick up a solid 5% yield.

## TD Bank

TD trades for \$89 per share at the time of writing compared to \$109 at the peak last year. The stock looks [undervalued](#) right now at just 9.4 times trailing 12-month earnings. TD delivered fiscal 2022 adjusted net income that topped the 2021 results and management expects adjusted earnings to grow by 7-10% in 2023, even as the Canadian and U.S. economies head for a slowdown.

TD built up a large war chest of excess cash during the pandemic and is using the funds to make two strategic purchases in the United States. The company is buying **First Horizon**, a retail bank, for US\$13.4 billion and **Cowen**, an investment bank, for US\$1.3 billion.

Investors should see annual dividend increases continue in the 10-13% range, consistent with TD's compound annual dividend growth over the past 25 years. At the current share price, investors can get a 4.3% dividend yield.

## Is one a better bet today?

Ongoing volatility should be expected in the near term, and more downside could be on the way, but both Suncor and TD now appear oversold and deserve to be on your radar. At this point, I would probably split a new investment between the two stocks for a portfolio focused on passive income.

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2. Investing

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