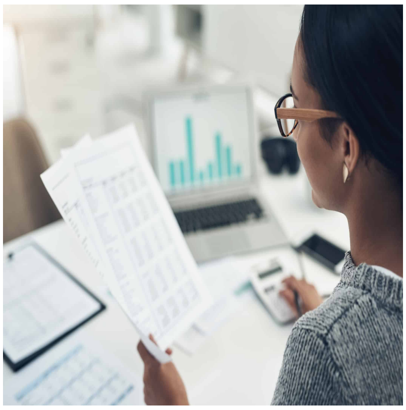

Better Buy: Fortis Stock vs. TD Stock for Passive Income

Description

Fortis (TSX:FTS) and **TD** (TSX:TD) are two of Canada's top dividend stocks. The market correction has driven down the share prices of Fortis and TD from their 2022 highs, giving investors seeking reliable passive income a chance to buy these TSX stocks at undervalued prices. Is FTS stock or TD stock more attractive to buy right now for a retirement portfolio?

Fortis

Fortis trades for close to $55 per share at the time of writing compared to a high around $65 in 2022. The steep drop gives investors a chance to buy a leading dividend-growth stock at a big discount.

Fortis should be a good stock to buy and hold during a recession. The company has $64 billion in utility assets and a full 99% of the revenue comes from regulated businesses. Power generation, electricity transmission, and natural gas distribution operations are spread out across Canada, the United States, and the Caribbean. These provide the essential power and fuel that companies and households need, regardless of the state of the economy.

Fortis is working on a $22.3 billion capital program that is expected to drive the rate base considerably higher in the next five years. The resulting increase in revenue and cash flow should support management's planned annual dividend growth of 4-6% through 2027. Fortis raised the dividend in each of the past 49 years, so there is good reason to believe the company will deliver on its targets.

The stock currently provides a 4.1% dividend yield.

TD Bank

TD trades for $86 at the time of writing. That's down from more than $100 a year ago. The pullback occurred through most of 2022, as investors increasingly worried that the rate hikes by the Bank of Canada and the United States Federal Reserve would trigger an economic downturn that is worse than anticipated. Central banks are trying to get inflation under control.

TD stock actually bottomed out in the summer around $78 and rebounded as high as $92 in early December. Volatility could continue, as the economic impact of the aggressive rate hikes emerges.

Despite the headwinds, TD expects to deliver solid earnings growth in fiscal 2023. The 2022 results topped a strong year in 2021, so the market might be too negative on the company's prospects.

TD is using the large cash hoard it built up during the pandemic to make two strategic acquisitions in the United States. The US$13.4 billion purchase of **First Horizon** will make TD a top-six retail bank in the American market. TD is also bolstering its capital markets operations with the US$1.3 billion purchase of **Cowen**, an investment bank.

TD raised its dividend by 13% for fiscal 2022. Another generous increase should be on the way in 2023 when the U.S. deals close. At the current level, the stock provides a 4.5% dividend yield.

Is one a better buy today?

Additional downside is certainly possible if the economic slump is worse than anticipated. That being said, both Fortis and TD appear oversold right now and should be solid picks for a buy-and-hold portfolio focused on passive income.

If you only buy one, I would probably make TD the first choice. The current yield is higher, and TD's dividend growth could outpace Fortis in the next few years.

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