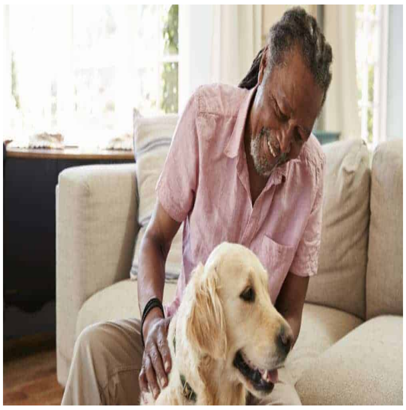

Retirees: 3 Reliable Canadian Dividend Stocks to Buy Now for Passive Income

Description

Canadian retirees are searching for ways to get better returns on their hard-earned savings to help offset the impact of high inflation. One popular strategy involves buying top TSX dividend stocks inside a Tax-Free Savings Account (TFSA). All of the dividends and capital gains generated inside the TFSA remain beyond the reach of the Canada Revenue Agency, and they won't put Old Age Security (OAS) pension payments at risk of a clawback.

The market correction in the past year has driven down the share prices of some great Canadian dividend stocks to attractive levels for buy-and-hold income investors.

CIBC

CIBC (TSX:CM) is Canada's fifth-largest bank by market capitalization, but it has a relatively large Canadian residential mortgage portfolio. The increases in interest rates through 2022 have made loans much more expensive for variable-rate borrowers and for fixed-rate mortgage holders who have to renew. The Bank of Canada just raised rates again, but more increases are not expected as long as inflation continues to trend lower.

The risk for CIBC and the other banks is that rates might have to remain at the current level through 2023 and 2024 to ensure inflation drops back to 2%. The longer rates remain elevated, more households will be forced to renew mortgages at higher levels. If there is a surge in unemployment at the same time, a wave of defaults could hit the mortgage market and CIBC would likely feel more pain than its target peers.

That being said, most economists predict a short and mild recession and a return to 2% inflation by the end of this year. Assuming the economy goes through a soft landing, CIBC shouldn't see a material impact on the mortgage portfolio.

At the current share price near $58.50, investors can buy CIBC stock for just 8.8 times trailing 12-month earnings. This is a multiple that would be more appropriate in dire economic conditions.

Management told investors in June that they expected adjusted earnings to grow in fiscal 2023, despite the economic headwinds, and the board announced two dividend increases last year. Based on this, CIBC stock now looks undervalued, and investors can pick up a 5.8% dividend yield.

TC Energy

TC Energy (TSX:TRP) trades for $57 per share at the time of writing compared to $74 last June. The pullback gives investors a chance to buy the stock on a meaningful dip and pick up a 6.3% dividend yield.

TC Energy is dealing with significant cost overruns on its Coastal GasLink pipeline project that will bring natural gas from producers in northeastern British Columbia to a new liquified natural gas (LNG) facility on the B.C. coast. The company sorted out a cost-sharing disagreement with LNG Canada last summer, and the project is now 80% complete with mechanical operation expected by the end of the year.

TC Energy has $34 billion in capital projects on the go that will help drive revenue and cash flow growth in the coming years. Management still expects to deliver annual dividend increases of 3-5% over the medium term.

Fortis

Fortis (TSX:FTS) is a Canadian utility company that gets 99% of its revenue from regulated assets. Power generation, electricity transmission, and natural gas distribution are essential services that customers need regardless of the state of the economy.

Fortis has raised its dividend in each of the past 49 years. The stock currently trades near $55.50 compared to $65 last year and now offers a 4% dividend yield.

The bottom line on top stocks for passive income

CIBC, TC Energy, and Fortis are top TSX dividend stocks that should continue to increase their payouts. If you have some cash to put to work in a TFSA focused on passive income, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:CM (Canadian Imperial Bank of Commerce)
2. TSX:FTS (Fortis Inc.)
3. TSX:TRP (TC Energy Corporation)

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