Better RRSP Buy: Fortis Stock or TD Bank?

Description

Fortis (TSX:FTS) and **TD Bank** (TSX:TD) still trade well below their 2022 highs. Investors with some cash to put to work in their self-directed Registered Retirement Savings Plans (RRSP) are wondering if one of these top TSX dividend stocks is still undervalued and good to buy for a retirement portfolio.

Fortis

Fortis owns and operates $64 billion in utility assets across Canada, the United States, and the Caribbean. The company gets 99% of its revenue from regulated businesses such as power generation, electricity transmission, and natural gas distribution utilities. These are essential products and services that deliver steady revenue streams that tend to be predictable, even during challenging economic times.

As a result, Fortis should be a good stock to buy and own as a defensive pick to ride out a potential recession. This doesn't mean Fortis stock is immune to market corrections. The share price is actually down to $55 from the 2022 high around $65 per share.

The pullback appears overdone, however, when you consider the growth outlook for revenue and cash flow. Fortis is working through a five-year $22.3 billion capital program that is expected to increase the rate base by an average of 6% annually through 2027. The resulting boost to cash flow should support management's plan to raise the dividend by 4% to 6% per year over that timeframe. This is decent guidance in uncertain economic times.

Fortis raised the dividend in each of the past 49 years. The current distribution provides a 4% dividend yield.

TD

TD’s stock price has rebounded nicely over the past seven months, but the share price is still down 12% over the past year.

Investors are concerned that aggressive rate hikes by the Bank of Canada and the U.S. Federal Reserve will eventually push the economies of both countries into meaningful downturns. The central banks are trying to get inflation under control. Rate hikes are designed to slow economic activity and bring the tight jobs market back into balance. Economists broadly expect a short and mild recession to occur. In that scenario, TD stock still looks cheap at the current multiple of 9.8 times trailing 12-month earnings.

The risk, however, is that high inflation will persist, and the central banks will be forced to continue to raise rates. The higher rates go and the longer they remain elevated, the more likely the result will be a deep and prolonged economic rout. For TD and its peers, their large Canadian residential mortgage portfolios could take meaningful hits if job losses soar, and households are unable to cover the increase in their loan payments.

TD says it expects adjusted earnings to increase by 7-10% this year, despite the economic headwinds. The company is wrapping up two strategic acquisitions in the United States that should position the business for decent future growth.

TD has delivered a compound annual dividend-growth rate of better than 10% over the past 25 years. A generous increase should be on the way in 2023. At the time of writing, the stock offers a 4.1% dividend yield.

Is one a better buy today?

Fortis and TD have good track records of dividend growth through challenging economic times. Fortis is probably the safer pick right now. TD likely offers better dividend-growth prospects in the coming years but might see more volatility in the near term.

At the current share prices, I would probably split a new RRSP investment between the two stocks.

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