TFSA Investors: Don't Let This Sale on Defensive Dividend Stocks Pass You by

Description

Everyone is becoming overly bullish all of a sudden, and a result, defensive Canadian utilities have taken a hit on the chin. While there are many reasons to be optimistic about what 2018 has to offer, I think it's a mistake for investors to throw in the towel on high-quality defensive dividend stocks such as **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Canadian Utilities Inc.** (TSX:CU), which have pulled back ~10% and ~15% from 52-week highs, respectively.

While it's tempting to follow the herd and go all-in on high-growth, cyclical names, it's times like these when you should actually be ensuring that you're not becoming complacent with your bets. Sure, 2017 was likely a phenomenal year for your portfolio, but when the party comes to an end, and yes, it will eventually end, you're likely going to kick yourself for neglecting the defensive portion of your portfolio, especially if you're a retiree or a soon-to-be retiree.

Premium defensive stocks at a discounted valuation

Fortis currently trades at a 17.6 trailing price-to-earnings multiple, a 1.4 price-to-book multiple, and a 7.2 price-to-cash flow multiple, all of which are slightly lower than the company's five-year historical average multiples of 20.7, 1.5, and 7.5, respectively. The dividend yield is also slightly higher at ~3.9% versus the five-year historical average yield of 3.7%.

For those hungry for a bit more yield, Canadian Utilities stock currently trades at a 17.65 trailing price-to-earnings multiple, a two price-to-book multiple and a 2.5 price-to-sales multiple, all of which are lower than the company's five-year historical average multiples of 20.2, 2.3, and 2.9, respectively. The dividend yield is also considerably higher at ~4.4% than the five-year historical average yield of 3.3%.

Fortis plans to invest $14.5 billion through 2022 which is expected to support ~6% in annual dividend hikes, regardless of which direction the market is heading. Canadian Utilities is slated to invest $5 billion through 2019, which should result in annual dividend growth in the single digits.

Bottom line

At these levels, you can't go wrong with either stock, as they're both trading at a slight discount to their intrinsic values. Both companies are extremely stable and are poised to outperform once the next economic downturn presents itself.

Both companies have grown their dividends at a consistent rate over the last four decades, so retirees and conservative income investors who haven't put their 2018 TFSA contribution to work yet should strongly consider picking up one or both of these two fine low-risk, high-yield dividend-growth kings.

Stay hungry. Stay Foolish.

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2. TSX:CU (Canadian Utilities Limited)
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