2 Cheap Dividend Stocks to Buy When Others Are Selling

Description

It's certainly not a good time to get bullish on power and gas utility stocks in Canada. These top dividend names are under pressure this year, and there is a little sign that their reversal is coming anytime soon.

The biggest contributing factor in this weakness for power and gas stocks is rising interest rates. The higher borrowing cost is bad for these companies, as they borrow heavily from markets to carry out their development projects. So, when interest rates rise, their free cash flows get squeezed, influencing their share prices.

But despite these cyclical pressures, utility stocks have a great advantage. Their revenues are generally regulated through long-term purchase agreements. This feature in their business models shield their cash flows from volatility, making them good for long-term income investors.

Let's have a look at **Algonquin Power and Utilities Corp.** (TSX:AQN)(NYSE:AQN) and **Hydro One Ltd.** (TSX:H) to find out which of these dividend stocks is a better buy after the recent sell-off.

Algonquin Power

Algonquin Power is an Ontario, Oakville-based, diversified generation, transmission, and distribution utility. It generates about 70% of earnings from regulated utilities and 30% from contracted renewable power.

The company, which owns renewable power and utility assets in North America, is also expanding abroad. It recently increased its stake in London-based Atlantica Yield PLC to 41.5%, up from its initial purchase of 25% in November.

In the U.S., the company provides rate-regulated natural gas, water, and electricity services to over 700,000 customers through its two business units.

Its share price has fallen more than 8% so far this year. But it seems this pullback has run its course. Algonquin now trades at the low end of its forward price-to-earnings multiple range of 17-25 for the past five years, offering an attractive buying opportunity for long-term investors, especially with the double-digit growth potential in its dividends.

Hydro One

Hydro One is another electricity, transmission, and distribution company that provides services to Canada’s most populated province: Ontario. Hydro One is also expanding south of the border, following on the footsteps of its bigger peers.

Last year, the company announced a $6.7 billion acquisition of northwestern U.S. energy company Avista Corp., which is a regulated utility that operates in the states of Alaska, Idaho, Montana, Oregon, and Washington.

The deal passed an antitrust clearance in the U.S. this month, and there is a good chance that it will go through other regulatory hurdles. But with this growth potential, Hydro One stock carries some political risks.

After the province of Ontario privatized Hydro One through an initial public offering in 2015, political parties in Ontario have different views about the future of this utility. With provincial elections scheduled for June, investors are shying away to bet on this stock amid political uncertainty.

Trading at $20.38, and with an annual dividend yield of 4.7%, Hydro One is an attractive option if you are willing to discount all the political noise and focus on its income potential.

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