Income Investors: 2 Cheap Dividend Darlings to Enrich Your Retirement

Description

The Bank of Canada raised rates on Tuesday with a less-dovish tone than expected. Moving forward, I think it's safe to say we'll see another hike at the end of the year and two more next year. We're in the dead-centre of a rising interest rate environment, and that's not good news for conservative income investors like retirees, who've likely been forced into an unfavourable position with their portfolios.

For retirees, income and safety are the two top traits to stand by. Dividend growth and capital gains are nice to have as well, but if you're sacrificing safety, you could be putting your retirement in jeopardy. And if you're sacrificing income, the quality of your retirement may not live up to your standards.

There is a way to beef up your dividend growth and capital gains without compromising on yield or safety, however. The following dividend stocks offer a high upfront yield, a relative margin of safety, and are positioned for above-average capital gains and dividend growth over the next five years.

Without further ado, here are the stocks:

Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR)

Telecoms aren't fans of rising rates. Large amounts of investment in wireless infrastructure are required, and with costs of borrowing increased, there's less cash to return to the pockets of shareholders. Thus, higher rates could translate to a marginally lower magnitude of dividend increases.

While the telecoms are still steady sources of dividends, I believe Shaw is a rare opportunity where you can retain a high yield and safety without sacrificing capital appreciation and dividend growth.

Shaw's wireless business, Freedom Mobile, is a disruptive force that I believe will leave a significant dent in the top-line numbers of the Big Three telecoms. Over the next five years, Freedom Mobile will likely close the gap between its bigger brothers, as it wins over subscribers with aggressive promos, lower rates, and continuously improving wireless infrastructure.

Today, Freedom Mobile has approximately 5% of the global wireless pie, but in five years from now, I think management will hit their long-term goal of capturing an equal 25% share of the Canadian wireless pie.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

This is a favourite among retirees, but it's fallen out of favour of late, and the dividend has grown marginally above the 4% mark. Make no mistake; Fortis is still arguably the go-to premier utility on the TSX.

With an above-average rate of growth and a commitment to delivering at least 5% in dividend growth per year, Fortis looks undervalued, even when you factor in the negative impact of higher interest rates. A considerable amount of growth from the U.S.-based ITC Holdings assets will allow Fortis to achieve consistent dividend growth and an above-average ROE versus your average domestic utility.

The stock trades at a 16.7 forward P/E, a 1.3 P/B, and a 6.3 P/CF, all of which are lower than the company's five-year historical average multiples of 20.5, 1.5, and 7.5, respectively. While the discount may seem warranted given the environment, I'd argue that the recent sell-off was overdone.

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