2 Top Canadian Dividend Stocks to Ride Out the Market Correction

Description

Canadian investors are getting a good reminder that equity markets can hit pockets of volatility.

The recent downturn is certainly having a short-term impact on portfolios, and while market dips can be a bit scary, they often produce great opportunities for investors with buy-and-hold strategies.

Let's take a look at two companies that might be interesting picks right now.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

TD is down from $80 per share to $67 in the past three months. The entire financial sector has taken a hit amid concerns over slowing global growth and whispers of a potential recession in the United States due to over-aggressive rate hikes.

The bank gets more than 30% of its profits from the United States, where the U.S. Federal Reserve just raised its target interest rate for the fourth time in 2018. The U.S. and Canadian employment numbers are the best they have been in decades, so the recession risk should be slim for the near term. Higher rates in the United States have had a net benefit for TD by improving the bank's net interest margins.

In Canada, TD's mortgage portfolio should be able to ride out a slowdown in the housing market, and the company has very little direct exposure to the troubles in the energy sector.

Management is targeting medium-term earnings-per-share growth of 7-10%. Dividend increases should continue in step with higher earnings.

At the current price, TD trades for 1.7 times book value compared to the five-year average of 1.9. The trailing price-to-earnings multiple is down to 11.2 compared to an average of 13.3 over that time frame. Assuming earnings growth will continue as expected, the stock appears oversold today. Investors can pick up a 4% dividend yield.

Fortis (TSX:FTS)(NYSE:FTS)

Fortis is a major player in the North American utility sector with power generation, electric transmission, and natural gas distribution businesses located in Canada, the United States, and the Caribbean.

Homeowners and companies need to keep the lights on and heat their buildings whether the economy is good or going through a downturn, so Fortis tends to be a stable holding for your portfolio.

This has certainly been evident in the past two months. The stock is actually up from $41 to $46 per share, putting it near the 2018 highs.

Fortis gets the majority of its revenue from regulated businesses, and the company has a strong track record of driving growth through strategic acquisitions and organic investments. Over the next five years, Fortis says it expects to see a large increase in the rate base that should support annual dividend hikes of at least 6%. That’s solid guidance, and investors should feel comfortable with the outlook. The company has raised the payout annually for 45 years.

The current distribution provides a yield of 3.9%.

The bottom line

TD and Fortis should be solid buy-and-hold picks for a TFSA or RRSP portfolio today. TD appears oversold, while Fortis offers a low-beta choice with attractive dividend growth.

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