The Safest Dividend Stocks in Canada Are on Sale

Description

Just a few months ago, investors were gearing up for a recession. The stock market was showing signs of weakness, and with economic indicators like the inverted yield curve flashing red, it seemed foolish (that's a lower-case 'f') to be a buyer of stocks on the dip.

As it turned out, buying such dips while everybody else was selling over shallow economic indicators turned out to be a very profitable endeavour. Who would have known that going against what the herd is doing would lead to better results?

Today, the markets are making new all-time highs. With a recession that seems to now be off the table, the most defensive of dividend stocks (the bond proxies) are currently down significantly, opening up a buying opportunity for contrarians who've yet to prep their portfolio for the next downturn.

While sentiment turns bullish again, contrarians have another chance to capitalize on the herd mentality of others. Capital has begun to rotate out of various defensives and back into cyclical names, although the recession risk is arguably the same as it was many months ago when the market was caught in a rut.

Consider shares of **Fortis** (TSX:FTS)(NYSE:FTS) and **Emera** (TSX:EMA), two of the "safest" Canadian bond proxies that have pulled back a considerable amount over the last few months, as market sentiment moved from fear to cautious optimism.

Fortis stock is down nearly 9% from its October all-time high and Emera is currently down 7% after partially rebounding from an 11% peak-to-trough correction.

The price of admission to both defensive dividend stocks is down, and their yields are slightly higher than they were just two months ago, with Fortis and Emera sporting dividend yields of 3.7% and 4.5%, respectively.

As a highly regulated business with an above-average growth profile, Fortis is the prime example of a stock you'd want to own in a bear market.

Sure, Fortis doesn't have the largest dividend yield in the world, and the 5-6% annualized dividend growth rate is hardly remarkable with all the double-digit dividend growth kings out there.

Given the downside protection, the stock can offer come the next big crash; however, the name makes most bonds look unrewarding and uninvestible by comparison.

Downside protection is the name of the game

Fortis stock fell by around 25% during the Financial Crisis and was very quick to recover, with shares returning to all-time highs just over two years later.

Emera is another top-notch utility that didn't implode during the last recession, with shares retreating less than 20% from peak to trough during the worst of 2008.

Like Fortis, Emera is growing at a nice rate given its stable cash flow stream that's less subject to downside (or upside) surprises relative to most other businesses out there.

Emera's management team continues to gravitate toward regulated operations and away from less predictable non-regulated projects. That means Emera's operating mix is becoming stabler and more predictable over time, making its stock worthy of a more significant premium.

In an era in which bond yields are at rock bottom, yield and stability are in high demand, and as Emera continues to exhibit low-risk growth, I do expect further multiple expansion over the next few years, even if no recession occurs.

Foolish takeaway

Emera's latest quarter saw impressive growth out of Florida, and with generous dividend hikes in store over the next few years, now is as good a time as any to initiate a position in the name that'll keep getting better year after year.

If you're looking for a better bang for your buck, Fortis, I believe, is an even cheaper bet, now that the stock is flirting with correction territory. At just 11 times EV/EBITDA, it's hard to match Fortis's risk/reward at these levels.

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Author
joefrenette