Top 3 Dividend Stocks for 2020

Description

Next year could be rough for the Canadian economy and its stock market. The Bank of Canada is forecasting economic growth below 2% for 2020, while analysts say corporate debt and a slowdown in earnings could drag the stock market lower.

However, even if the market cycle turns some stocks will continue to deliver excellent results for patient, long-term shareholders. Here are three dividend stocks I'll be watching in 2020.

Renewable energy

The shift toward green energy and renewable sources of power is a trend that is likely to last decades. Governments and corporations are expected to spend trillions of dollars switching to these alternative sources of energy for environmental, regulatory and cost-related reasons. The ultimate beneficiaries are stocks like **TransAlta Renewables** (TSX:RNW).

While its parent company owns and manages electrical power plants in Canada, the United States, and Australia, this subsidiary is focused exclusively on renewable energy assets such as hydroelectric power plants and wind farms. At the moment, the company manages a portfolio of 34 renewable energy plants, 54% of which are wind farms.

These plants are spread across the globe, which lowers the company's overall risk profile and bolsters earnings. Earnings seem to be lucrative enough to support a 6.3% dividend yield.

With low debt (39% of equity) and robust operating cash flows ($361 million over the past 12 months), TransAlta is definitely worth watching closely next year.

Utility

Whether it's next year or 10 years from tomorrow, a solid utility is relatively immune to the market cycle. **Fortis** (TSX:FTS)(NYSE:FTS), for example, has delivered both steady income and solid capital gains over the past two decades despite the numerous market crashes along the way.

At the moment, the stock offers a 3.6% dividend yield. Admittedly, that's not a life-changing yield, but it is more reliable than most other dividend stocks on the market.

Fortis pays out less than half of its earnings (49.6%) in dividends. It has $2.57 billion in annual operating cash flow and $228 million in cash on its books.

As one of the most conservatively managed utility stocks, Fortis offers investors a shield from any imminent market crash. The stock lost less value than the overall market during the 2008 financial crisis.

In fact, it boosted dividends throughout those years. At the moment, its dividend growth spree stands at 45 years altogether — talk about a Dividend Aristocrat!

Telecom giant

The final one on the list is telecom giant **BCE** (TSX:BCE)(NYSE:BCE). Telecoms may not be immune to the market cycle or the threat of disruption, but BCE seems to have secured its position in a particularly lucrative market, which limits the downside.

At the moment, it may be the largest telecommunications company in Canada based on subscriber numbers and is in the best financial position of the top three based on debt and cash on hand.

The company has $988 million in cash and generated $3.38 billion in levered free cash flow over the past 12 months.

The company has already deployed significant cash to create a 5G network, which enhances its competitive edge even further.

Once the rollout of next-generation wireless is complete, I believe BCE's cash flow should see a significant boost — which is what makes its current 5% dividend yield even more appealing.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:BCE (BCE Inc.)
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vraisinghani