Market Rebound: 2 Surging Dividend Stocks for RRSP Investors

Description

The stock market rebound in the past two days has bargain hunters searching for top TSX Index dividend stocks to add to their RRSP portfolios.

Let's take a look at three oversold dividend stocks that still have significant upside potential.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) recently dipped below $47 per share. At the time of writing, the share price is back to $57. This is still well below the $74 investors paid in February, so those with a long-term outlook should do well buying the stock at the current level.

Canada's third-largest bank by market capitalization is very profitable and has a strong capital position. The board maintained the dividend during the Great Recession, and the existing payout should be safe, while the company navigates through the coronavirus downturn.

That said, investors should expect rough results in the coming two or three quarters. Massive layoffs in Canada will hit consumers hard. This is going to put pressure on loan portfolios, including mortgages. In addition, business investment is on hold in most industries. Some sectors, including travel, hospitality, energy, and retail, face serious short-term challenges.

Investors should also keep an eye on Bank of Nova Scotia's international operations. The bank gets about 30% of adjusted net income from the division. The majority of the business is located in the Pacific Alliance countries of Mexico, Colombia, Peru, and Chile. Combined, the group forms an economic bloc of more than 225 million consumers. The oil crash and falling copper prices will hurt the economies of these countries. In addition, the spread of the coronavirus could make the situation worse.

Once the crisis is over, however, the upside opportunity should be attractive. Government stimulus packages should drive strong growth, and low interest rates could trigger a boom in consumer and business borrowing, as people take advantage of the cheap rates to buy homes, and companies invest to grow their businesses.

Bank of Nova Scotia currently provides a 6.3% dividend yield.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) traded for $58 in early March. The stock hit a recent closing low near $42 and currently trades at $49 per share. Given the nature of the business, the sell-off appears overdone.

Fortis owns more than $50 billion in utility assets in Canada, the United States, and the Caribbean. The operations include power production, electric transmission, and natural gas distribution. These tend to be recession-resistant businesses. Commercial demand might drop due to the economic downturn, but a boom in residential demand could occur, as millions of people work from home. This might actually drive revenue growth during the coronavirus crisis.

Fortis is investing more than $18 billion across the various businesses as part of its five-year capital program. This should boost the rate base enough to support average annual dividend hikes of 6% through 2024.

The board raised the payout in each of the past 46 years. That's a good sign for investors who want a reliable dividend stock to own during the downturn. The current yield is 3.9%.

The bottom line

Bank of Nova Scotia and Fortis pay attractive dividends that should be safe.

These stocks appear oversold right now and deserve to be on your radar for a dividend-focused RRSP portfolio.

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