Top 2 Canadian Dividend Stocks to Buy in Volatile Markets

Description

This is the time to keep things simple. I would buy Canadian heavyweights that I have been using and seeing around me for many years. Many TSX dividend stocks have fallen more than 30-40% in this market crash driven by the virus outbreak. So, why go in search of small-cap value stocks just to achieve marginally higher returns with added risk?

We will see some of the Canadian blue-chip stocks that we all wanted to build positions in, but held ourselves back because of their high valuations. Now that these stocks have fallen to attractive levels, investors should pounce on the opportunity.

Top TSX dividend stocks: Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is the third-biggest lender in the country and has a vast presence in Canada, the U.S., and Latin America. It has more than 10 million customers and $1.2 trillion in assets.

Scotiabank stock has fallen more than 35% amid this pandemic since last month. Its solid dividend yield and long payment history are too hard to ignore. It is currently trading at a yield of 7% and has been paying dividends continuously since 1833.

There is no doubt that banks will remain under pressure during these challenging times. However, Bank of Nova Scotia has been through such turbulent periods earlier as well and has emerged even stronger.

In my view, long-term investors should not be bothered about Scotiabank's weak numbers in the next few quarters. Its large presence and diversified global operations will likely support its bottom line in the long run. Also, recently announced government stimulus will help Canadian banks to come out of the woods to some extent.

Bank of Nova Scotia stock looks insanely cheap at the moment. It is trading eight times its forward earnings based on estimates. To put that in perspective, that's notably at a discount compared to its five-year average valuation around 12 times.

Canadian Utilities

An **ATCO** company, **Canadian Utilities** (TSX:CU) is a $8 billion diversified energy company. Investors generally switch to defensive stocks such as utilities in difficult times, as they have stable earnings and pay regular dividends.

Canadian Utilities has also been paying consistent dividends for the last 48 consecutive years — the longest dividend streak for any Canadian company. Notably, it currently offers a dividend yield of 6.5%, much higher than the broader markets.

Interest rates and utility stocks generally trade inversely to each other. As interest rates are expected to get lower, utilities' yields will become more attractive compared to bonds, and more investors will turn to these defensives. Also, utilities is a capital-intensive business, and these companies carry large debts on their books. Lower interest rates will reduce their debt-servicing costs, ultimately improving their profitability.

I think investors should have some exposure to utility dividend stocks such as Canadian Utilities, and not only during the challenging times. It will give the portfolio a much-needed defensive tilt along with a consistent income stream through dividends.

Canadian Utilities stock recently fell close to $25, almost its decade-low levels. It is currently trading around eight times, which is terribly cheap compared to its average historical valuation.

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2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CU (Canadian Utilities Limited)

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vinitkularni20