Forget Airlines: 2 Top TSX Dividend Stocks to Buy Instead

Description

The stock market crash saw many Canadian stocks go on sale, with the **TSX** plunging by 17% for the year to date. Airlines are garnering considerable attention. Warren Buffett, after making what appears to be a disastrous foray into the industry, dumped US$388 million of **Southwest Airlines** and **Delta Airlines** two weeks ago. One of the hardest-hit TSX stocks is **Air Canada**, which has lost 60%, sparking speculation that it is time to buy.

Airlines are risky

While Air Canada is a speculative contrarian play on the latest market crash, it is a risky investment. Airline stocks have long been held to be a great way to lose money. Even Warren Buffett, who is one of the best investors ever, had a strong dislike for the industry, claiming in 2013 that it was a deathtrap for investors.

Nonetheless, Buffett went on to acquire significant positions in Delta, **American**, and Southwest airlines. In the wake of the coronavirus pandemic, it appears to be a costly mistake. There are claims that Buffett has taken a US$5 billion hit on that investment. The current crisis gripping the industry highlights why airlines are risky and unpopular investments.

For those reasons, investors with a low risk tolerance who are seeking to create wealth over the long term would do better to look elsewhere. One of the surest ways to building wealth is to invest in quality dividend-paying companies with wide economic moats that are trading at attractive valuations. Here are two top-quality Canadian dividend-growth stocks that are attractively valued, making now the time to buy.

Canada's most profitable bank

Canadian banks have weathered the latest market crash in relatively good shape. The hardest hit of the Big Six has been **National Bank of Canada** (TSX:NA). It has fallen further than the broader TSX, losing 23% for the year to date to be trading with some attractive valuation ratios, including a price of times 2020 earnings and times book value. That sees National Bank rewarding shareholders with a regular sustainable dividend yielding a juicy 5%.

National Bank, like its peers, reported some solid fiscal first-quarter 2020 numbers. These included an impressive return on equity of 18.3%, which was 1.1% greater than a year earlier, making it Canada's most profitable bank.

National Bank possesses solid fundamentals. These include a common equity tier one capital ratio of 11.7%, underscoring that it is well capitalized. The bank's quality loan portfolio, as illustrated by a gross impaired loans ratio of 0.43%, indicates that it is well positioned to weather any downturn in the credit cycle caused by a coronavirus recession.

National Bank's focus on driving efficiencies in its operations, high-quality credit portfolio, and disciplined cost management will allow it to unlock value, even in the current difficult operating environment.

Global infrastructure

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP), which owns a globally diversified portfolio of critical infrastructure, has proven resistant to the market crash. The partnership has only lost 6%, or roughly a third of the TSX's losses since the start of 2020. Brookfield Infrastructure rewards investors with a regular sustainable distribution yielding 5.5%.

Brookfield Infrastructure possesses solid defensive characteristics. When those are combined with its low volatility and regular distribution hikes, Brookfield Infrastructure is an ideal stock to build long-term wealth. Over the last decade, it has been one of the best-performing TSX stocks. Brookfield Infrastructure has delivered a total return of 486%, which equates to an impressive compound annual growth rate (CAGR) of 19%.

Despite the latest headwinds, Brookfield Infrastructure will deliver further value. Its capital-recycling strategy combined with considerable liquidity makes it ideally positioned to opportunistically acquire undervalued assets. Brookfield Infrastructure's earnings are virtually assured, because 95% of its revenue is generated by contracted or regulated assets.

Furthermore, it operates in oligopolistic markets, allowing Brookfield Infrastructure to act as a price maker rather than a price taker. The critical nature of the partnership's assets to economic activity means that demand for their utilization is relatively inelastic.

For those reasons, Brookfield Infrastructure is an ideal defensive stock to own in the current harsh operating environment. Importantly, Brookfield Infrastructure possesses solid growth prospects. These will ensure that it rallies once the coronavirus pandemic declines and the economy returns to growth.

CATEGORY

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TICKERS GLOBAL

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2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:NA (National Bank of Canada)

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