If You've Got $3,000 to Invest, Buy These Dividend Stocks Now

Description

If you've got $3,000 of excess cash on hand, you might as well get it to work for you. Inflation eats away the value of your money, especially when central banks around the world have been printing unprecedented levels of money.

Here are some appealing dividend stocks you can buy now to help maintain your purchasing power and provide a nice income to boot.

Buy Canada's big bank stocks

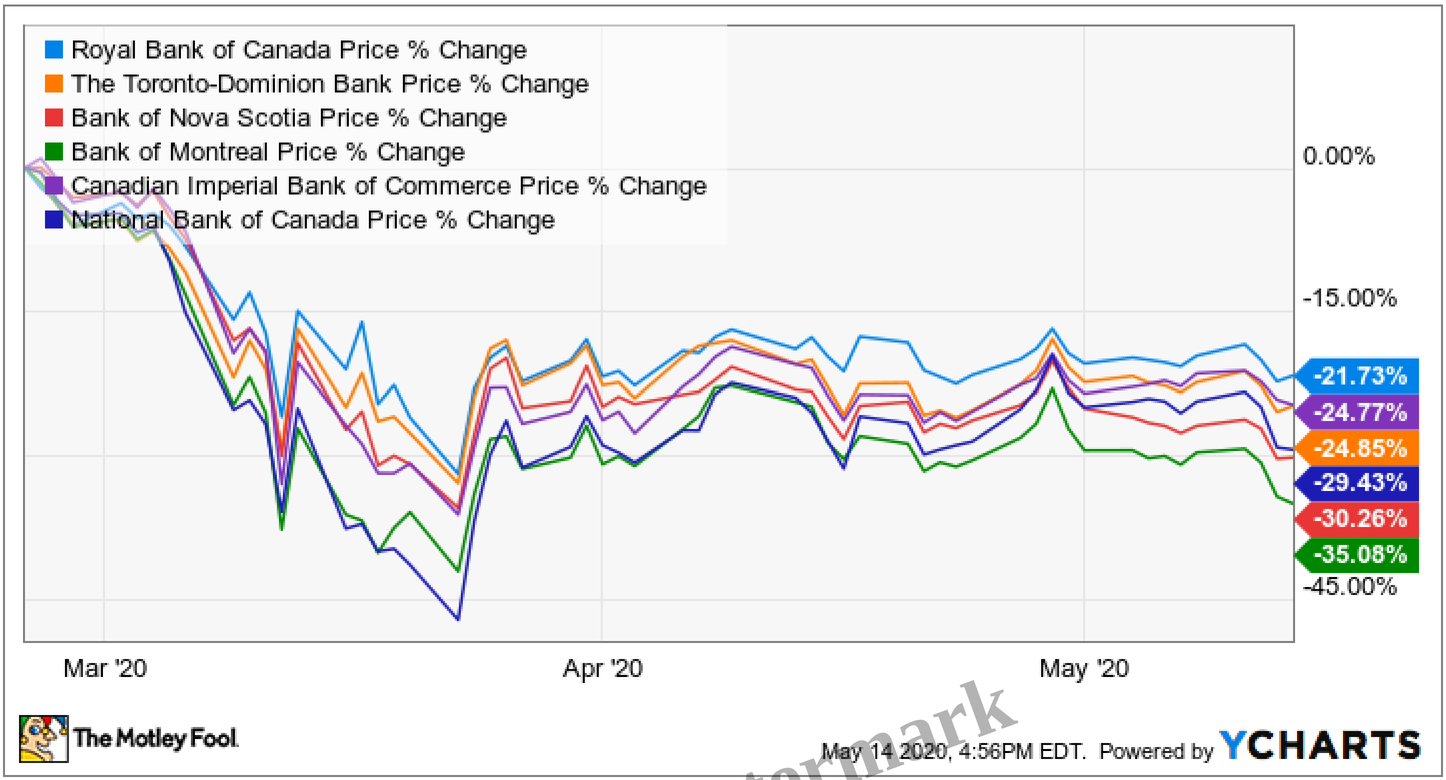
My colleague, Mat Litalien, thinks Canada's big banks are a buy as their provision for credit losses are at their highs.

Economic data is going to be pretty ugly this year, along with high levels of unemployment. However, this is also when the big Canadian banks are on sale for long-term investment. Keep in mind that these multinational giants are among the most profitable businesses in the nation!

The Big Three Canadian banks, in aggregate, generated $117 billion of revenue and reported $33.3 billion of net income in fiscal 2019 — and paid out $15.6 billion in dividends.

Canada's big three banks have fallen in a similar fashion with the banking group. So, you might choose to invest in one of them to prevent high correlation between holdings in your stock portfolio.

Currently, they offer awesome yields of more than 5%. Specifically, **RBC** stock, **TD** stock, and **BNS** stock yield 5.2%, 5.7%, and 7.1%, respectively.



Data by YCharts

Royal Bank and TD are trading at discounts of roughly 20% from their normal valuations. Scotiabank's discount is even wider at 30%!

All three are solid dividend income ideas for investors with an investment horizon of more than three years. However, there are key differences. Royal Bank is the highest quality with the most diversified business mix with 41% of earnings coming from capital markets and wealth management. TD has greater exposure to the U.S. economy. Scotiabank has exposure to higher long-term economic growth in the Pacific Alliance countries.

Buy utility stocks

One interesting utility stock that has tumbled considerably is **Capital Power** (TSX:CPX). Specifically, the market prices the power generation stock 33% cheaper from its high in late February, while its earnings power is expected to remain intact despite the COVID-19 crisis.

CPX data by YCharts

Capital Power's stock sell-off is more related to a high valuation dropping to a discounted valuation. The utility stock's 7.6% yield is enticing. However, the high yield comes with risks. The utility has a prominent exposure to Alberta, from which it generates close to 46% of its EBITDA.

That said, the power producer has mitigated much risk. First, about 83% of its adjusted EBITDA is contracted, including 28% of EBITDA from the U.S., 29% from Alberta and 26% from other parts of Canada.

Second, it has hedged 91% of the Albertan baseload generation for the rest of the year in mid-$50/MWh, which is higher than the forward price of $48/MWh. Nevertheless, a downward trend in prices would still hurt the company's revenues in the future.

Still, Capital Power is a proven Canadian Dividend Aristocrat with a track record of dividend increases over six consecutive years. Its five-year compound annual growth rate is 7.2%, which is on the high end of growth in the utility sector.

In Q1, the company [reaffirmed its 2020 outlook], which includes a target adjusted EBITDA of about $960 million, adjusted funds from operations of $525 million, and a dividend growth rate of 5-7% through 2022.

Notably, the stock is cheap trading at about $25 per share versus analysts' average 12-month target that's 33% higher.

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kayng