2 Dirt-Cheap Dividend Stocks to Buy in August!

Description

High-quality dividend stocks are more important to income-focused investors than ever before. Government of Canada five-year bonds yield a measly 0.35% today. After inflation, you can hardly expect to earn anything from bonds. Frankly, investors have no choice but to look to dividend-paying equities to supplement their income needs, even if it is riskier (no dividend is ever guaranteed).

Fortunately, there are still some dirt-cheap dividend stocks that are trading with higher than average yields. In particular, energy stocks have had a very tough go this year. Yet if you find the best stocks in the worst sectors, you can often unlock opportunities that other investors are too afraid (or uninformed) to touch.

If you don't mind a bit of risk, then here are two top energy stocks that pay safe dividends and have some really good upside from here.

Cheap dividend stock one: Enbridge

The first dividend stock you should consider buying in August is **Enbridge** (TSX:ENB)(NYSE:ENB). It has faced a challenging quarter with lower-than-average volumes (due to overall weakness from oil producers), Line 5 shutdowns, Line 3 permitting delays, and pipeline leaks. However, it actually demonstrated encouraging second-quarter results on Wednesday.

Enbridge fell short on transportation volumes, and consequently revenues dropped by 40% from last year to $8 billion. Yet adjusted profit was only down 16% to $0.56 per share. That beat analysts average estimates of $0.55 per share. Its distributable cash flow actually increased by 6.1%. Management further affirmed its guidance range for $4.50 to $4.80/DCF per share.

I think this quarter just demonstrated the resilience, diversity, and quality of Enbridge's overall business. Weak oil liquids volumes were offset by strength in its natural gas transmission/distribution businesses. In addition, it continues to make strong progress on its $11 billion pipeline of growth initiatives.

Overall, it pays a phenomenal 7.45% dividend (with a very modest payout ratio of 67%), a growing diversified business (including in natural gas utilities and renewable energy), and the stock is cheap right now. To me, for a long-term hold, now is great time to buy and start collecting that sweet yield.

Dividend stock two: Tourmaline Oil

The second dirt-cheap dividend stock to buy is **Tourmaline Oil** (TSX:TOU). Opposed to its name, Tourmaline is actually Canada's largest *natural gas* producer. It released very strong second-quarter results yesterday. This dividend stock is setting up for a great recovery in 2020 and 2021.

Production (natural gas and oil) grew by 7% to 299,369 boe/d. Despite a very difficult pricing environment, Tourmaline still produced revenues and cash flows per share that were on par with last year. It continued to reduce operating costs (down 12% from last year) and produced an impressive $121 million of free cash flow. Presently, it has a free cash flow yield of about 6%, which it expects to double to 12% in 2021!

Year to date, the stock is down 14% and is yielding 3.75%. Out of the energy producers, this is one of my favourite stocks.

Unlike many other energy producers, Tourmaline is being opportunistic in this troubled energy environment. Through the spin-off of Topaz Energy (its midstream and infrastructure segment), it will have around $1 billion to consolidate the natural gas sector in what it calls a "generational low valuation opportunity."

This opportunity could be magnified by a potential turnaround in natural gas pricing. With U.S. shale production weakening, natural gas supply could diminish, and analysts are starting to turn bullish on natural gas pricing into 2021. Consequently, 2021 could be a phenomenal year for Tourmaline. I think now is great time to buy into its long-awaited recovery.

The Foolish takeaway

Despite a challenging energy sector, these dirt-cheap dividend stocks are the best among their peers. Consequently, I want to own the best stocks set up for a turnaround when global economies eventually recover from COVID-19. Now is a great time to lock in these stable dividends and enjoy some great overall long-term gains.

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