2 Dirt-Cheap TSX Dividend Stocks I'd Invest $2,000 in Now!

Description

TSX dividend stocks are more important to Canadian income investors than ever! On Monday, the U.S. Federal Reserve chair Jerome Powell noted that [he is seeing employment and economic data slowly recover]. However, the recovery will be prolonged longer than anticipated. As a result, the Fed and most other central banks across the world will maintain interest rates at or near zero. Considering this trend, dividend stocks are the only way income investors can lock in any chance of a reasonable income yield.

Low interest means dividend yields will drop too

Generally, dividend income is riskier than bonds, because dividends are never guaranteed to be paid. Yet, after tax and inflation, government bonds could only earn investors a negative to neutral return if held for any extended period of time from here.

Fortunately, there are many TSX dividend stocks that are trading at affordable valuations and attractive yields. I anticipate that yield-seeking capital will continue to flow into these stocks, so now is a great time to buy in. Here are my two favourite cheap TSX dividend stocks that I am thinking about putting $2,000 into now.

Algonquin Power: A safe dividend stock

If you are worried about volatility on the stock markets, **Algonquin Power and Utilities** (TSX:AQN)(NYSE:AQN) is a TSX dividend stock you want to own. It is an integrated utility (water, natural gas, and electric transmission) and renewable power producer in North America. It pays a nice 4.4% dividend that is safely covered by cash flows (AFFO payout ratio of 58%). The stock is still trading at a 15% discount to its highs set in early March.

There are a few reasons I like this stock. First, Algonquin stock is incredibly stable, because it is supported by a solid regulated utility business. Algonquin has a stock beta of 0.34. This means its performance is not heavily correlated to overall stock market volatility. Second, Algonquin has an aggressive growth strategy. It plans to invest $9.2 billion and achieve 12-15% compounded annual growth over the next five years.

It recently acquired a Chilean water utility, a water utility in New York, and signed a renewable energy development agreement with **Chevron**. This TSX dividend stock has the stability of a regulated utility but ample upside from a robust development and acquisition pipeline. I believe Algonquin’s strong renewables business will attract capital and investor interest for many years to come.

Enbridge: A high-yielding dividend grower

Enbridge (TSX:ENB)(NYSE:ENB) is the ultimate cheap TSX dividend stock. Despite demonstrating relatively strong earnings through the pandemic crisis, the stock is trading down 21% year to date. As a result, the stock is paying a generous 8.11% dividend.

Of course, Enbridge has had its challenges this year. Its largest development project to date, the Line 3 replacement pipeline, has faced legal and environmental challenges. Likewise, a portion of its Line 5 pipeline was closed in the spring over an integrity concern. Lastly, the massive decline in oil prices lead to concerns around reduced volumes and the insolvency of some of its counter-parties.

Despite these issues, Enbridge still stands on good legs. Almost a quarter of North America’s gas and oil are transported through its pipelines. Its revenues are 98% regulated or contracted. Its infrastructure and services are essential for the energy industry and household consumers alike. Although oil may be an industry in decline, Enbridge’s diverse business will be integral for many years to come.

In fact, 68% of its capital growth program will be invested in gas transmission, distribution, and renewables. Consequently, management believes it can grow its distributable cash flow by 5-7% for the next three years. Combine its stable business, a great dividend, and the opportunity for growth, and I think this TSX dividend stock is a really attractive, risk-balanced investment proposition.

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