Worried About a Market Crash? Buy These 3 Undervalued Dividend Aristocrats

Description

The Canadian equity markets have recouped most of their losses after bottoming out in March amid support from the government and the central bank through favourable fiscal and monetary policies. The **S&P/TSX Composite Index** is currently trading just 3.2% lower from its all-time high.

However, the economic outlook looks weak, with a high unemployment rate and total economic activities remaining 5% lower from the pre-pandemic levels. Meanwhile, the implementation of restrictions amid the second wave of COVID-19 could also slow down the recovery rate. So, the widening gap between the equity markets and the economy could lead to a correction in equity markets in 2021.

Given the uncertain outlook, investors could buy the following three Dividend Aristocrats to reduce the portfolio's overall risk and volatility. Dividend stocks tend to perform better than non-dividend-paying stocks during the economic downturn. The dividend payments also help in mitigating the impact of capital erosion.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) has a long history of paying dividends. It has raised its dividends for 26 consecutive years at a CAGR of 11%. In February, the company had hiked its dividends by 9.8% to $0.81 per share, despite the challenging environment. It has an attractive dividend yield of 7.6%.

Meanwhile, the company runs a highly diversified and resilient business, with 98% of its adjusted EBITDA generated from long-term contractual agreements, delivering high-quality earnings and stable cash flows. Enbridge is going ahead with its $11 billion secured growth projects, with around $5 billion worth of projects expected to complete over the next two years. Along with organic growth, these investments could support a 5-7% DCF-per-share annual growth until 2022. Given its growth prospects, stable cash flows, and high liquidity of $14 billion, Enbridge's dividends are safe.

Amid the weak oil demand, its throughput in the pipeline segment had declined, impacting its financials and stock price. The company has lost 17.6% of its stock value this year, which offers an excellent entry point for long-term investors

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Canadian Utilities

Canadian Utilities (TSX:CU) runs a highly diversified utility business delivering essential services to over 1.5 million customers. It earns around 95% of its adjusted EBITDA from rate-regulated utility assets. These strong cash flows have allowed the company to raise its dividends for the past 48 consecutive years. The company has a healthy dividend yield of 5.4%.

Canadian Utilities has planned to expand its rate base by investing $3.5 billion between 2020 and 2022. These investments could support its earnings growth in the coming years. Further, the company's financial position looks strong, with cash and cash equivalents of $940 million and an undrawn credit facility of $2.25 billion as of September 30. So, the company could continue raising its dividends.

Meanwhile, amid the weak energy demand, the company's stock value has declined by 18% this year and trades at an attractive valuation. Currently, its forward price-to-earnings multiple stands at 16.2, while its forward enterprise value-to-sales multiple stands at 5.7.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is an electric and gas utility company that serves around three million customers. The company earns 99% of its earnings from its utility assets. So, its financials are mostly immune to economic downturns. Meanwhile, the company plans to spend $19.6 billion over the next five years to increase its rate base from $30.2 billion to $40.3 billion at a CAGR of 6%. So, the expansion in rate base could support its earnings growth in the coming years.

In September 2020, the company's board had raised its quarterly dividends by 5.8% to $0.505 per share, which marked the company's 47th year of a consecutive dividend hike. Its dividend yield looks healthy at 3.8%. Meanwhile, the company's management has planned to raise its dividends by 6% annually over the next five years. With its stock price trading 1.4% lower for this year, I believe Fortis would be an excellent buy for income-seeking investors.

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2. NYSE:FTS (Fortis Inc.)
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5. TSX:FTS (Fortis Inc.)

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