Top 2 Dividend Stocks to Buy in 2021

Description

The year 2020 taught the world importance of savings. Many people lost their jobs and savings to the pandemic, but the government's fiscal stimulus package came to the rescue. The year 2021 brings hope for freedom from coronavirus as several pharma companies' vaccines come to market. While there are hopes of recovery, you can't rule out the possibility of a stock market crash.

Safeguard your portfolio from 2021 volatility

When will the market crash? You can only make an informed estimate of the possibility of a crash. A few fears of 2021 will be:

- The Canada Recovery Benefit (CRA) may claw back some of the recovery benefits in April.
- The COVID-19 vaccine rollout may face some challenges like a mutation of the virus or people refusing to get vaccinated.
- Many companies and individuals may default on their debt, exposing banks to a larger bad debt than they can handle.

You can protect your portfolio from a possible market crash by investing in dividend aristocrats that enjoy stable cash flows and lower debt. In the pandemic crisis, real estate stocks took a hit as many businesses vacated offices, retail stores, and malls.

But energy is a commodity that will always see demand. Yes, there can be fluctuations in the volume, but energy demand will only increase. Hence these two energy stocks can give you stable dividends during a market crash and capital appreciation and dividend growth during economic growth.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) is the favourite of all dividend lovers, with its 26th year of continuous dividend growth. This pipeline operator managed to increase its dividend per share even during the three major crises of this century, the 2009 financial crisis, the 2014 oil crisis, and the 2020 pandemic crisis. It was all because of its resilient business model and diversified revenue streams of oil, natural gas, and renewable energy.

Enbridge is not directly exposed to oil prices as it just transmits oil through its pipelines at a pre-determined rate. More than 99% of its revenue comes from long-term contracts. Generally, when oil and natural gas prices fall, demand increases, and so does Enbridge's cash flow. Moreover, the company expects three new pipeline projects to come online in 2021 and add to its cash flow.

In the March market crash, Enbridge stock fell 35% as oil demand fell. This dip inflated its dividend yield to as high s 9%. Those who invested in this stock during the crash have locked in a life-time of high yield, which will grow as the economy grows. There is still time as the stock is down 27% from the pre-pandemic level and is offering a dividend yield of 8.2%.

One of the major long-term risks for Enbridge is a transition to clean energy. But this shift will take another 20 years to make a material difference in Enbridge's cash flows. By then, the company would have a significant portfolio of renewable energy.

Algonquin Power stock

Enbridge's long-term risk is **Algonquin Power's** (TSX:AQN)(NYSE:AQN) long-term opportunity. Algonquin earns 70% of its revenue from water, electricity, and natural gas, which are essentials services and can never go out of demand. It earns the remaining 30% revenue from renewable power operations and development.

Within renewable, it has solar, wind, thermal, and hydro facilities. It has 2 GW of installed renewable energy capacity, and an additional 1.6 GW of capacity is under construction.

Algonquin sells 85% of its power generated through long-term contracts. It is growing organically and through acquisitions, which is driving its profits, dividends, and stock prices. In the last five years, its adjusted EPS and dividend per share surged at a compound annual growth rate (CAGR) of 13.5% and 7.9%, respectively. Its stock also surged at a CAGR of 13.8% during this period.

Algonquin will benefit from the shift to clean energy. In the next five years, it plans to spend $9.4 billion and increase its adjusted EPS at a CAGR of 8-10%. The stock currently has a dividend yield of 3.8%. But it has the potential to increase this dividend and also give you capital appreciation.

CATEGORY

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2. NYSE:ENB (Enbridge Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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