January Stock Picks: Top 3 Dividend Stocks to Buy Under $100

Description

The pandemic has highlighted the need for passive income. Many Canadians lost their jobs or got pay cuts. The Canada Revenue Agency (CRA) did provide emergency benefits, but many Canadians fell through the cracks and did not qualify. You can't predict contingencies. They come in the flash of a second and leave you in crisis. The best you can do is prepare for them, and dividends are a good way to do that. Today I bring to you three dividends stocks you can buy for less than $100 per share.

When investing in a dividend stock, look for three things:

- Dividend history – Did the company paid dividends regularly even during a crisis?
- Dividend growth record– Did the company increase its dividends frequently?
- Free cash flow (FCF) and dividend payout ratio – Has the company been increasing its FCF steadily? What is the payout ratio as a company has to balance cash allocation in dividend payments and capital spending?

Three Canadian stocks tick all the above criteria, making them good stocks to buy in January.

Canadian Utilities

Canadian Utilities (TSX:CU) has a history of paying incremental dividends for the last 48 years. It has increased its dividend per share at a 10-year compound annual growth rate (CAGR) of 8% and had a 78% dividend payout ratio in the third quarter. The company earns a majority of its earnings from utilities and the rest from transmission and storage of natural gas and electricity. Its integrated business model helped it increase dividends even during the crisis.

In the March 2020 sell-off, the company's stock fell 40% as offices, malls, and factories closed, reducing electricity demand. However, this was a temporary situation, and the stock surged 25% from its pandemic low as the economy reopened and electricity and natural gas demand surged.

This is the right time to buy the stock before it surges another 25% to the pre-pandemic level. You can lock in a dividend yield of 5.45% and enjoy 8% average annual growth in dividends for another 10 years.

Enbridge

Any dividend talk is incomplete without **Enbridge** (TSX:ENB)(NYSE:ENB), North America's largest pipeline operator. It has a history of paying incremental dividends for the last 26 years. The company increased its dividends at a 10-year CAGR of 12.7%.

Enbridge earns money by transmitting oil, storing and transmitting natural gas, and generating wind energy. Its diversified revenue streams keep its cash flow stable even during the crisis. The stock fell 35% during the pandemic downturn as nationwide lockdown reduced oil demand. As the economy reopened, gasoline demand returned, and its stock surged 25%.

Enbridge stock is still trading at a 20% discount from its pre-pandemic level as jet fuel demand remains weak and is unlikely to return to the pre-pandemic level for the next five years. Moreover, Joe Biden's presidency could impact the approval of some of its pipeline projects in the United States.

Despite these risks, Enbridge will continue to increase its dividends, maybe at a slower rate. It increased its 2021 dividend per share by 3%. You can lock in a dividend yield of 7.45% and enjoy 5-8% average annual growth in dividends.

Toronto-Dominion Bank stock

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) has a 26-year history of paying incremental dividends. The bank increased its dividends at a 10-year CAGR of 9.8%.

The bank benefits from its diversified portfolio of retail and wholesale loans and deposits to individuals and businesses. It also provides wealth services. TD bank benefited from a higher volume of banking transactions last year. Many businesses took term loans to maintain liquidity. It has sufficient provision for capital losses.

TD Bank's fiscal 2020 revenue surged 3%, while its adjusted EPS fell 20%. It had a 62% dividend payout ratio last year, which means there is a possibility that the bank might increase its dividends this year again.

How to invest in dividend stocks

When you think of investing in dividend stocks as a contingency plan, you want to ensure that you can withdraw that money without worrying about penalties or taxes. It is wise to invest in dividend stocks through Tax-Free Savings Account (TFSA), where you can withdraw anytime tax-free.

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:ENB (Enbridge Inc.)
5. TSX:TD (The Toronto-Dominion Bank)

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