Passive-Income Investors: 2 Stocks You Must Buy Now!

Description

A company that has grown dividends over time can be considered fundamentally strong, as it showcases the resiliency of the underlying business. Further, if the company has been able to maintain its dividend streak across business cycles, it should be on the top of your buying list right now.

Dividend-paying companies allow investors to generate a passive-income stream as well as benefit from long-term capital gains. Here, we'll look at two TSX stocks that should be on the radars of income investors today.

Algonquin Power & Utilities

A large-cap stock that has underperformed the TSX in the last year, **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) has generated more than 400% to investors in dividend-adjusted returns since October 2011. The company has, in fact, increased dividends at an annual rate of 10% in the last decade. It currently offers investors a tasty forward yield of 4.7%.

Algonquin Power & Utilities derives two-thirds of its earnings from utilities and the rest from its renewable energy business. The average length remaining on the company's renewable energy contracts is around 13 years. Its regulated and long-term contracted assets enable AQN to generate predictable cash flows, which support consistent dividend increases.

Algonquin's operating margin is over 20%, which suggests its dividend payouts are sustainable. In fact, the dividend-payout ratio stands at just 41%, which indicates investors can expect payments to increase in the future as well. A key driver for dividend increases is the rise in cash flows, which, in turn, is dependent on rising capital expenditures.

Algonquin's renewable generation capacity is 2.3 gigawatts, and it expects to spend $3.1 billion on clean energy projects through 2025 while total capex spending is forecast at $9.4 billion. These investments will allow the company to maintain the current mix between regulated utilities and renewable energy businesses.

AQN has already deployed $3.1 billion in expenditures in the first half of 2021. In the second quarter, its revenue rose by 54% year over year while adjusted EBITDA soared by 39% year over year.

TC Energy

The second dividend stock on my list is **TC Energy** (TSX:TRP)(NYSE:TRP), which is among Canada's largest companies. TC Energy stock's dividend yield stands at 5.5% right now. Similar to other pipeline companies, TC Energy also generates stable cash flows, as they are backed by long-term contracts.

Right now, the energy giant plans to invest $21 billion in expansion projects, which will help it boost cash flows and raise dividend payouts — something it has done for the last 21 years. Growing environmental concerns might make it difficult for new projects to gain regulatory approvals, which makes TC Energy's existing capacity all the more valuable.

In the last four years, TC Energy's revenue has hovered around $13 billion with an operating margin of at least 20%. In the second quarter of 2021, it reported earnings per share of $1 while its quarterly dividend payment was $0.87.

The management team expects dividend payments to rise between 5% and 7% going forward on the back of expansion plans. In the last two decades, TC Energy has increased dividends at an annual rate of 7%.

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araghunath