2 Top TSX Dividend Stocks to Buy on the Dip

Description

Investors are getting a chance to buy some top TSX dividend stocks at discounted prices. Additional weakness could occur, but these stocks already look undervalued.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) recently increased its dividend by about 6% to extend its dividend-growth streak to 48 years.

The company is one of the top dividend-growth stocks in the TSX Index, and the trend is expected to continue for some time. Fortis is working on a $19.6 billion capital program that will substantially increase the rate base from about $30 billion in 2020 to roughly $40 billion in 2025. The resulting jump in cash flow should support ongoing average dividend increases of 6% per year.

This is important for dividend investors who are putting money into utilities and other stocks that tend to be sensitive to changes in interest rates. Rising rates can put pressure on the share price of Fortis. In fact, the pullback from the 2021 high around $59 to the current price close to $55 is likely due to market anticipation of interest rate hikes by the Bank of Canada and the U.S. Federal Reserve.

The theory is that fixed-income investors who'd bought the utilities for their reliable dividends might shift to GICs and other safe investments as rates of return increase.

Steady dividend growth, however, should help offset the rate-hike headwinds. As such, the recent pullback in Fortis appears overdone.

Investors who buy at the time of writing can pick up a 3.9% dividend yield with solid dividend growth on the horizon. Any additional weakness in the stock price should be viewed as an opportunity to add to the position.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) raised its dividend by 10% this year, supported by revenue and cash flow growth coming from acquisitions and the completion of capital projects.

The company has an attractive mix of water and electric utilities combined with solar, wind, and hydroelectric facilities. Algonquin Power successfully raised US$1 billion through an equity offering this year and $400 million through a green bond issue that will see the funds go toward the company's ESG initiatives.

Algonquin Power reported strong Q2 2021 results. Revenue jumped 54% compared to the same period last year. Adjusted EBITDA increased 39% and adjusted earnings per share rose 67%.

Despite the strong results and the new war chest of funds to drive growth through new capital projects and acquisitions, the stock is down from the 2021 closing high of $22.54 to the current price near $18.50. Investors who buy at this level can pick up a 4.6% dividend yield with good distribution growth likely on the way in 2022 and beyond. Algonquin Power had a US$9.4 billion capital program in place running from 2021 to 2025.

As ESG investments become more important for asset managers and large utilities the sector is expected to consolidate. Algonquin Power is typically a buyer of assets, but it could also become a takeover target in the next few years.

The bottom line

Fortis and Algonquin Power are top TSX dividend stocks that pay attractive and growing distributions. The share prices appear cheap today in a broader market that is arguably overbought.

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2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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