2 Top TSX Dividend Stocks to Buy Now While They Are Still Cheap

Description

The **TSX Index** is near its all-time highs, but some top TSX dividend stocks have pulled back in recent weeks and now look undervalued.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) trades near $18 per share at the time of writing compared to the 2021 high around $22.50.

The recent dip is due to the company's issue of $800 million in new equity at $18.15 per share to help pay for the acquisition of Kentucky Power for US$2.846 billion. If the over-allotment is fully exercised the value will be $920 million.

The deal is expected to close in mid-2022. Algonquin Power says the purchase will add more than US$2 billion in rate base assets and be accretive to adjusted net earnings in the first year of ownership while generating roughly 5% accretion afterwards.

The share issue is at a 2.4% discount to the previous closing price before the announcement. That's not a large difference. Discounts are common in this type of situation.

Algonquin Power also said it expects adjusted net earnings per share for full-year 2021 to come in at the low end of the US$0.71 to $0.76 guidance. Weaker-than-expected wind power is to blame for a shortfall in Q3 2021.

Finally, the Bank of Canada came out on the same day and said it intends to raise interest rates earlier than expected in 2022. That put pressure on the entire utility sector.

The combination of the various news points is why the stock dipped below the offer price of the new shares.

Weakness might continue in the near term, but the stock appears oversold when you take the big picture into consideration. Algonquin Power raised its dividend by 10% in 2021, and the addition of Kentucky Power, along with ongoing capital projects, should bode well for another decent dividend increase in 2022.

Investors who buy the stock at $18 can pick up a solid 4.8% dividend yield.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) trades near $55 per share at the time of writing compared to nearly $59 in August. The utility company has $56 billion in assets across Canada, the United States, and the Caribbean. Most of the revenue comes from rate regulated businesses that include power generation, electric transmission, and natural gas distribution.

Fortis is working on a $19.6 billion capital program that is expected to boost the rate base from about $30 billion to $40 billion between 2020 to 2025. The new five-year plan through 2026 will come out with the Q3 2021 results on October 29. New projects could get added to the mix to extend the revenue and dividend-growth outlook.

Fortis has provided dividend-growth guidance of an average rate of 6% per year through 2025. The board has raised the distribution in each of the past 48 years.

The stock is a great pick for dividend investors who want a top income stock that they can comfortably own for decades. The shares appear attractive at the current price and offer a 3.9% dividend yield.

The bottom line on cheap dividend stocks

Algonquin Power and Fortis are top-quality dividend-growth stocks that look undervalued right now and offer solid yields. If you have some cash to put to work, these stocks deserve to be on your radar.

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