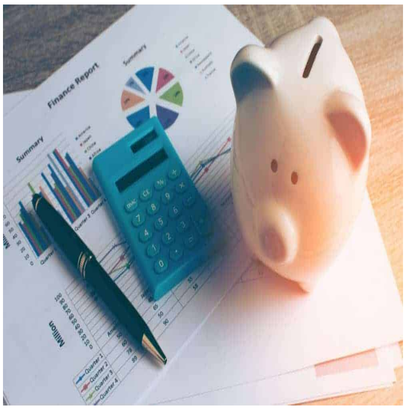

2 Cheap Canadian Stocks to Start a Self-Directed RRSP

Description

The RRSP remains a great vehicle for saving cash and building wealth for retirement. Let's take a look at two TSX dividend stocks that appear undervalued right now and should be solid picks for a self-directed RRSP portfolio.

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TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) is a giant in the North American energy infrastructure sector with more than $100 billion in assets located across Canada, the United States, and Mexico.

The company is working on a $22 billion capital program over the next few years that will drive steady revenue and cash flow growth.

TC Energy's share price is down from the 2021 high due to some challenges with its Coastal GasLink project that will bring natural gas from key production regions in northern British Columbia to a liquified natural gas (LNG) terminal on the B.C. coast. Delays and higher costs have caused some tension between TC Energy and LNG Canada. The two are working through the details and construction continues. The situation isn't ideal, but large pipeline projects often hit snags.

TC Energy has a number of ESG partnerships on the go as it plans for the future. The company is developing a carbon-sequestration facility in Alberta as well as large-scale hydrogen production facilities in the United States and Canada.

TC Energy reported decent results for Q3 2021. Comparable earnings came in at $1.0 billion, up from $893 million in the same period last year. For the first nine months of 2021, comparable earnings rose 5%.

TC Energy now expects to deliver annual dividend growth of 3-5%. That's down from previous guidance of 5-7%. The change in outlook led to a drop in the share price, but the dip looks overdone.

Investors can buy the stock for $63.25 at the time of writing compared to the 2021 high around $68.

The current dividend provides a 5.5% yield.

The natural gas industry should have a bright future, and TC Energy's 93,000 km of natural gas pipeline infrastructure and significant gas storage facilities puts in in a good position to benefit from rising natural gas demand. The fuel emits much less carbon dioxide than coal and oil when burned to produce electricity.

Renewable energy, including winds, solar, and hydroelectric facilities will continue to expand and generate larger portions of the world's power needs, but gas-fired power will remain a key component due to its reliability.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) operates renewable power-generation facilities as well as electricity, water, and natural gas distribution utilities.

The company has a long track record of driving growth through strategic acquisitions and development projects. Algonquin Power recently announced a US$2.85 billion deal to buy Kentucky Power. The purchase adds 228,000 electricity customers to the portfolio and is expected to be accretive in the first year after closing.

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Algonquin Power says its rate base will grow by 32% to US$9 billion and its customer base will increase by 19% to more than 1.4 million across its portfolio. Regulated operations will account for 80% of the asset mix.

Algonquin Power plans to replace the coal-fired power facilities with renewable energy. The company has successfully employed the strategy on other deals. As part of its financing of the acquisition, Algonquin Power entered a bought-deal arrangement to sell $800 million in new stock at $18.15 per share. That was a small discount to the share price before the announcement and caused the stock to fall.

At the time of writing, Algonquin Power trades near $17.70 per share. It was as high as $22.50 earlier this year. The board raised the dividend by 10% in 2021, extending a long streak of generous payout increases. Another big distribution hike could be on the way in 2022 once the Kentucky Power deal closes.

The stock appears undervalued right now, and investors who buy at the current price can pick up a 4.9% yield.

The bottom line on top stocks for RRSP investors

TC Energy and Algonquin Power pay attractive dividends that should continue to grow. The stocks look cheap today for investors planning to start a buy-and-hold RRSP portfolio.

CATEGORY

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2. NYSE:TRP (Tc Energy)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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