2 Canadian Stocks to Buy Before They Correct Upwards

Description

Heading into year's end, there are many great Canadian stocks that are still on sale. In this piece, we'll have a look at two oversold names that may have a high chance of correcting to the upside over the next 18 months. Consider **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) and **North West Company** (TSX:NWC), two quality defensives with large dividend yields and a valuation that seems unsustainably low.

Algonquin Power & Utilities

Algonquin has been a major laggard, down over 15% year to date. COVID disruptions and uncertainties over the recently-acquired Kentucky Power have weighed, as did jitters over rising rates and a broader souring of the renewables trade that was so hot in the back half of 2020. A variety of factors have dragged shares of Algonquin lower, but the longer-term fundamentals still seem very much intact. I believe that all that changed is the price. The company still owns many prized assets in the states, including a rock-solid water utility, which is about as stable as cash flows get.

The renewable power production business can be quite capital-intensive, a major negative when interest rates are poised to rise at some point over the next several quarters. Still, Algonquin has a capable management team that can help the stock continue swimming forward, even if market waters get rougher or the current starts flowing head-on.

With a nearly 5% dividend yield, AQN stock is a solid buy in my books, especially if you're of the belief that a rate-driven correction in growth stocks will occur over the next 12-18 months. The dividend and margin of safety can help your portfolio stay grounded as volatility makes a return.

At writing, the stock trades at 12.5 times trailing earnings, which isn't at all expensive for the well-supported dividend that could continue growing in the face of higher rates.

North West Company

The North West Company is a lesser-known defensive dividend stock that many may be inclined to forget about. The mid-cap has a mere $1.7 billion market cap, with an attractive 4.3% dividend yield. For those unfamiliar with the name, it's a grocery and discount retail play that served underserved communities within remote regions of northwestern North America.

Indeed, retail is a competitive game that's hard to thrive in. North West's niche is within remote communities, areas that may be less economical for big players and e-commerce disruptors. That's why North West is one of the most compelling options for defensive investors who are looking to lower their portfolio's beta. Like Algonquin, shares have underperformed the **TSX Index** year to date — a trend I don't think is sustainable given the calibre of business and management.

The stock trades at 11.6 times trailing earnings, making the name a great compliment to a portfolio that's lacking in defensives.

The bottom line

Algonquin and North West stock are value, dividend, and defensive plays all rolled into one. If the markets get choppy in the new year, both names look well-positioned to hold their own versus the averages. If I had to choose one, I'd have to go with Algonquin because the yield is simply too good to pass up at its depressed valuations.

CATEGORY

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2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:NWC (The North West Company Inc.)

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