RRSP Wealth: 2 Cheap TSX Dividend Stocks to Buy Now

Description

RRSP investors who missed the big rally in 2021 now have a chance to buy some undervalued TSX dividend stocks that could deliver significant total returns in 2022.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) is based in Ontario, but most of its assets are located in the United States. The company's revenue stream is so heavily weighted south of the border that Algonquin Power reports its earnings in U.S. dollars.

The stock hit a high around $22.50 per share in February this year but has been on a negative trend since that time. Part of the pullback is attributed to a broader slide in the renewables segment after the big 2020 run, but Algonquin Power also has some company-specific items that have put the share price under added pressure.

Fortunately, the market reaction appears overdone, and investors with some patience and an eye for value might want to buy at the current price around $17.50.

Algonquin Power recently announced a large acquisition. The purchase of Kentucky Power for US$2.846 billion will greatly expand the number of customers, increase the rate base and boost the size of the asset portfolio.

The market is waiting to see how the company will pay for the deal. Algonquin Power raised $800 million through a bought-deal share sale and indicated in the Q3 2021 report that the rest of the funding could come from a combination of hybrid debt, equity units, and/or the sale of non-regulated assets.

Management just announced a US$12.4 billion capital program through 2026 across the regulated utilities (US$8.8 billion), and the renewable energy businesses, which will see investments of US$3.6 billion.

The company is forecasting that adjusted net earnings per share will grow at a compound annual rate of 7-9% for 2022 to 2026. That's pretty good guidance, and the result should be steady dividend hikes that are at least in line with the target earnings growth.

Investors who buy the stock now can pick up a solid 4.9% dividend yield.

CIBC

CIBC (TSX:CM)(NYSE:CM) is Canada's fifth-largest bank by market capitalization. The stock is also widely viewed as the riskiest pick among the five largest Canadian banks due to its history of making big blunders and its relatively large exposure to the Canadian housing market.

Despite some additional risks in the event that home prices crash and mortgage holders default in waves, the stock looks cheap right now at just 10 times trailing 12-month earnings. A slowdown in the housing market is expected once interest rates start to rise, but a meltdown is unlikely.

Higher interest rats tend to be a net benefit for the banks. They can generate better net interest margins on loans and earn extra returns on cash that has to be set aside to cover deposits.

CIBC delivered strong profits in fiscal 2021, and the board just raised the quarterly dividend by 15 cents to $1.61 per share, so the good times look set to continue.

The annualized yield on the dividend is now 4.5% at the current share price.

The bottom line on top stocks for RRSP investors

Algonquin Power and CIBC pay generous dividends that offer attractive yields. The stocks look cheap in an otherwise expensive market and should deliver solid total returns for buy-and-hold RRSP investors in the coming years.

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2. Investing

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Date
2025/07/25
Date Created
2021/12/15
Author
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