2 Top High-Yield Dividend Stocks to Buy Now for a Self-Directed RRSP

Description

Canadian savers are searching for cheap dividend stocks to add to their self-directed RRSP portfolios. The overall market looks a bit overbought today, but there are still some undervalued stocks that pay attractive dividends for retirement investors.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) stock is down more than 11% in 2021. That's a dismal performance compared to the 21% gain for the broader **TSX Index**.

The drop occurred as investors dumped renewable energy stocks after their strong rally in 2020 and through the first part of 2021. Algonquin Power recently came under additional pressure as a result of a newly announced acquisition.

The agreement to buy **Kentucky Power** for US$2.85 billion is a significant move by Algonquin Power, and the market might be of the opinion the company is biting off more than it can chew. Algonquin Power hasn't provided concrete guidance on how it will ultimately finance the full value of the deal, and investors might be concerned that Algonquin Power will have to take on too much debt or issue too much stock to pay back its short-term acquisition financing.

The market reaction appears overdone. Algonquin Power has a strong track record of making successful acquisitions, and this one will provide a large boost to the rate base, customer base, and transmission infrastructure. In addition, the company has announced US$12.4 billion capital program through 2026.

Management expects adjusted net earnings per share to grow by 7% to 9% per year over the next five years. That should support steady annual dividend increases. Algonquin Power raised the payout by 10% per year over the past decade. Investors who buy the stock at the current share price can pick up a 4.7% yield.

Manulife Financial

Manulife (TSX:MFC)(NYSE:MFC) stock is up 8% in 2021, but well off the highs for the year, despite its strong Q3 2021 earnings results and the recent announcement of an 18% dividend increase.

Manulife has insurance and wealth management businesses primarily located in Canada, the United States, and across a number of countries in Asia. The impact of the last wave of the Delta variant and the risks connected to the Omicron variant in the Asian markets might be one reason Manulife's share price has not performed better. The situation has to be taken into account when evaluating the stock, but Manulife appears undervalued right now trading at just 7.1 times trailing 12-month earnings.

Management has done a good job of removing risks from the business after the company took a beating during the Great Recession. Manulife recently announced a new deal that takes the process another step forward. The company is monetizing $2 billion in value by reinsuring 75% of its U.S. variable annuities portfolio. In short, this helps limit downside risks for Manulife and its investors if the stock market crashes.

Investors who buy the shares today can pick up an annualized dividend yield of 5.5%.

The bottom line on top high-yield stocks for RRSP portfolios

Algonquin Power and Manulife pay attractive dividends that should continue to grow in the coming years. The stocks appear cheap right now in an expensive market and should deliver solid total returns for self-directed RRSP investors in 2022 and beyond.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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