



## RRSP Alert: 2 Top Undervalued Dividend Stocks for New Investors

### Description

The overall **TSX Index** looks a bit expensive right now, but investors can still find undervalued stocks to add to their self-directed [RRSP](#) portfolios.

### TD Bank

**TD** ([TSX:TD](#))([NYSE:TD](#)) trades near \$100 per share at the time of writing compared to a 2022 high around \$109. Buying TD stock on a dip has historically proven to be a wise move over the long run, and this time shouldn't be any different.

The bank is a profit machine, earning adjusted net income of more than \$14.6 billion in fiscal 2021 compared to about \$10 billion in 2020. Those are impressive results when you consider the economic challenges the world has gone through over the past two years.

Aggressive government aid in Canada and the United States has definitely helped TD and its peers dodge a bullet. Businesses and homeowners avoided defaults by maintaining loan and mortgage payments, and record-low interest rates triggered a new wave of buying in the housing market.

Looking ahead, the anticipated rise in interest rates and bond yields will likely slow the real estate market down, as fewer people will qualify for loans. However, rising interest rates are normally good for banks, as they tend to boost net interest margins the banks generate. One risk, however, lies in the bond markets. When yield curves invert, as they recently have in the United States, banks don't typically fare as well, and that's part of the reason for the recent pullback in the share prices of bank stocks.

TD raised its dividend by 13% late last year. Investors should see another generous increase for 2023. The bank is one of the best dividend-growth names in the TSX with a compound average distribution growth rate of better than 10% over the past two decades.

TD recently announced a US\$13.4 billion deal to buy First Horizon in the United States. The purchase will make TD a top-six bank in the American market and add more than 400 branches to TD's existing

retail network that runs right down the U.S. east coast from Maine to Florida.

TD has built up a large cash surplus over the past two years and is using it to make the First Horizon acquisition to drive growth. This is positive for buy-and-hold investors.

Steady dividend increases should be on the way in the coming years. Investors can currently pick up a 3.5% dividend yield on TD stock.

## Algonquin Power

**Algonquin Power** ([TSX:AQN](#))([NYSE:AQN](#)) traded as high as \$22.50 per share in early 2021. The stock then went into a slide for most of last year and bottomed out just above \$17. Bargain hunters have started moving back into the shares in recent weeks, but Algonquin Power still looks [undervalued](#).

Why?

The company is buying Kentucky Power for US\$2.85 billion in a deal that will shift the asset mix more heavily to regulated revenue streams. This means investors should start to treat Algonquin Power more as a utility play than a renewable energy stock. The renewable power assets are still an important part of the company, but 70% of the US\$12.4 billion capital program over the next several years is earmarked for the rate-regulated asset group.

Algonquin Power raised its dividend by 10% per year over the past decade. Steady distribution growth should continue, supported by anticipated earnings growth of 7-9%.

## The bottom line on cheap stocks to buy now

TD and Algonquin Power look attractive right now for dividend investors focused on total returns inside a self-directed RRSP. If you have some cash to put to work in your retirement portfolio, these stocks deserve to be on your radar.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:TD (The Toronto-Dominion Bank)

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