Recession Alert: 2 Cheap TSX Stocks to Buy for 2023

Description

Aggressive rate hikes by the U.S. Federal Reserve and the Bank of Canada to reduce inflation might trigger a recession in 2023 or 2024. In this environment, it makes sense to seek out defensive dividend stocks that will raise their payouts over the next few years, regardless of the economic conditions.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) operates $58 billion in power generation, electricity transmission, and natural gas distribution assets in Canada, the United States, and the Caribbean. The company gets 99% of its revenue from regulated businesses, so cash flow tends to be predictable each year. This helps Fortis budget for new investments to grow the business while providing stable cash flow to support the dividend.

Fortis is working on a $20 billion capital program that will increase the rate base by about $10 billion by the end of 2026. Other projects under consideration could get added to the mix and boost cash flow, even higher. At the moment, management expects revenue and cash flow to increase enough to raise the dividend by an average of 6% per year through at least 2025. This is good guidance for TFSA dividend investors seeking passive income who want to be sure they will see their earnings increase regardless of the economic conditions.

Fortis raised the dividend in each of the past 48 years, so investors should feel comfortable with the guidance. The market correction has pulled the stock price down to $58.50 at the time of writing compared to the 2022 high around $65. At this level Fortis stock looks undervalued and offers a 3.65% dividend yield.

Telus

Telus (TSX:T)(NYSE:TU) is investing in network upgrades across its traditional communications business segments while also growing its newer subsidiaries targeting opportunities in digital services outside the regular telecom sphere.

Telus spent $1.9 billion last year on 3,500 MHz spectrum that is now the foundation for the expansion of the company's 5G network. Telus is also wrapping its copper-to-fibre wireline transition. These initiatives provide customers with the broadband capacity needed for work and entertainment across multiple platforms. The investments also help protect the wide moat Telus enjoys and will drive future revenue growth.

Telus subsidiaries include Telus Health and Telus Agriculture. The businesses leverage the parent company's communications expertise to provide digital services designed to make the healthcare and farming sectors more efficient.

Telus recently announced plans to buy **LifeWorks** for $2.9 billion in a deal that will make Telus Health a major Canadian and international player in the employer-provided healthcare segment.

Telus stock looks undervalued at the current price of $28.50 per share. Investors can pick up a solid 4.75% dividend yield and should see annual dividend growth come in at 7-10% through 2025.

The bottom line on top defensive stocks to buy in a market correction

Fortis and Telus provide essential services that should deliver steady revenue through an economic downturn. The companies pay attractive dividends that will continue to grow in the next few years, so investors get paid well to ride out a downturn. If you have some cash to put to work in a TFSA or RRSP, these stocks deserve to be on your radar.

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aswalker