2 Cheap TSX Stocks I'd Buy for Monthly Dividends Ahead of a Recession

Description

The fears of an inflationary recession are materializing, as Canada's inflation peaks at 8.1% in June. Despite the Bank of Canada's aggressive interest rate hikes to curb inflation, the real interest rate remains negative. This means the higher prices are eroding the purchasing power of savings and slowing consumer demand. Investing in dividend stocks can protect your purchasing power and give you sufficient monthly dividends, even during a recession.

Stocks that can pay monthly dividends in a recession

Investing in a recession should be done with caution, as companies face lower income and cut costs to survive. Hence, you need to invest in stocks with a higher chance of withstanding a recession without dividend cuts.

I have identified two stocks that can continue paying dividends even in an inflationary recession.

Choice Properties REIT

The status of investment trust is bestowed upon real estate investment trusts (REITs), as they distribute a significant portion of its rental income to shareholders. Just for your information, REITs don't pay corporate tax. Hence, they have a higher distribution yield than other dividend stocks. This tax advantage can help **Choice Properties REIT** (TSX:CHP.UN) continue paying distribution, even in a recession.

It is Canada's largest REIT, with 701 properties. It earns a significant portion of its income from retail stores, most of which are groceries and essentials. Its largest tenant is **Loblaw**. The REIT recently renewed its leases with the retailer, increasing the rent by an average of 5% and extending the lease by 7.7 years. This renewal assures that Choice Properties won't be among other REITs that slash distributions.

However, rising interest rates are reducing the fair market value of its properties, which is pulling down its stock price. The stock fell over 12% from its April peak, which has increased its distribution yield to 5.32%. So, if you invest $5,000 in Choice Properties now, you can get $22 a month for a very long time. That will help reduce your savings erosion during a recession. Even though the property value of Choice Properties falls in the recession, it will appreciate during the recovery. It is scarcity that makes land a safe-haven investment, even for modern-day investors.

Choice Properties's stock price could jump significantly during economic recovery when inflation eases, and property prices appreciate. That time, you would be wealthier than in pre-recession days, as you will have capital appreciation plus 5% passive income locked in.

TransAlta Renewables stock

Believe it or not, but a small renewable energy company has been paying regular monthly dividends since 2013. And it has never slashed the dividend. This small-cap stock is **TransAlta Renewables** (TSX:RNW), which builds wind, natural gas, hydro, and solar power-generation facilities. The stock is volatile in the short term, as fossil fuel energy is currently the hype. Investing in the hype is the worst mistake you can make in a recession.

Always invest in boring stocks that many are not talking about. But the stock should generate positive cash flows and revenue growth. TransAlta stock rose 10.5% in the last 40 days, as Russia reduced its gas supply to Europe, escalating natural gas prices by 450% from last year. TransAlta's exposure to natural gas is driving its stock price. This price will keep fluctuating in the short term. So, don't be bothered by this momentum.

Focus on the 5.29% dividend yield and the monthly distribution frequency. The upcoming inflationary recession will increase energy prices and accelerate the shift to alternatives. While the first choice is firing coal plants and importing oil and gas from other countries, the second choice is wind and solar energy. Importing oil and gas is not a sustainable solution to energy security.

TransAlta has contracted its power capacity at regulated rates, and the energy crisis will increase the demand for renewable energy. This will ensure the company's dividend flow during a recession. But the stock could see a jump in the long term, as short-term solutions like coal and oil will aggravate the need for sustainable and greener energy solutions. This will drive TransAlta's stock price in the long term and enable it to grow dividends once it builds a larger infrastructure.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CHP.UN (Choice Properties Real Estate Investment Trust)
2. TSX:RNW (TransAlta Renewables)

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