RRSP Investors: 2 Great Oversold Canadian Dividend Stocks to Buy for the DRIP

Description

The market pullback is giving self-directed RRSP investors a chance to buy top TSX dividend stocks at undervalued prices. One popular RRSP investing strategy involves using the company's dividend-reinvestment plan (DRIP) to buy additional shares at a discount and harness the power of compounding.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is a Canadian utility company with $60 billion in assets located in Canada, the United States, and the Caribbean. The revenue stream is 99% regulated, meaning cash flow tends to be predictable and reliable. Fortis owns and operates power generation, electricity transmission, and natural gas distribution businesses.

Growth comes from acquisitions and internal development projects. The current $20 billion capital program will boost the rate base by roughly a third to more than $40 billion by 2026. Management expects cash flow growth to support average annual dividend increases of 6% through at least 2025. Fortis raised the dividend in each of the past 48 years, so the guidance should be reliable.

Fortis currently offers a 2% discount on shares purchased under the DRIP. At writing, the stock appears cheap at $59.50 per share. It was above $65 a few months ago, and little has changed in the outlook for the business. Investors can get a 3.6% dividend yield from the stock at the current price and wait for the dividend hikes to boost the return on the original investment.

RRSP investors have done well with Fortis stock. A $10,000 investment in the shares 25 years ago would be worth more than $175,000 today with the dividends reinvested.

Algonquin Power

Algonquin Power (TSX:AQN)(NYSE:AQN) owns renewable energy assets and utility businesses primarily located in the United States. The company is in the process of buying **Kentucky Power** in a deal that will significantly shift the business mix more to the utility side of the spectrum with higher regulated revenue. In fact, the regulated rate base will increase by 32% to US$9 billion, and 80% of Algonquin Power's operations will be regulated operations.

The market, however, continues to treat Algonquin Power like a non-regulated renewable energy play. The stock appears undervalued at the current price below $18 and offers investors a 5.2% dividend yield.

Algonquin Power raised the dividend by 6% when the company reported Q1 2022 results. The board hiked the payout by 10% annually over the previous decade. Once the Kentucky Power acquisition is complete it wouldn't be a surprise to see the dividend increases return to the 10% level.

Algonquin Power offers a 5% discount on shares purchased using the DRIP. This can result in meaningful long-term total returns for investors who take advantage of the opportunity and decide to hold the stock for the long haul.

A $10,000 investment in AQN stock 15 years ago would be worth more than $45,000 today with the dividends reinvested.

The bottom line on top DRIP stocks for total returns

Fortis and Algonquin Power are quality dividend payers that have delivered solid total returns for long-term investors. If you have some cash to put to work in a self-directed RRSP, these stocks look cheap today and deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:FTS (Fortis Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
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