



3 Top Dividend Stocks to Drive Your Passive Income

Description

Investors are optimistic that the initiatives taken by central banks worldwide could lower inflation by the end of this year and expect that the bulk of rate hikes have already happened. This optimism has led the **S&P/TSX Composite Index** to rise 8.3% from last month's lows. However, given the ongoing Russia-Ukraine war and concerns over slowing global growth, adding the following three [dividend stocks](#) would be prudent. These three fundamentally strong companies with stable cash flows could boost your passive income while strengthening your portfolios.

Algonquin Power & Utilities

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) is a Canadian Dividend Aristocrat that has raised its dividends for the last 12 years at a CAGR (compounded annual growth rate) of over 10%. The utility company serves around 1.2 million customers, meeting their electric, water, and natural gas requirements. Additionally, it has a portfolio of power-generating facilities, with the company selling around 82% of the power generated from these facilities through long-term agreements. Given its low-risk and regulated business, the company's cash flows are stable and reliable.

Further, Algonquin Power & Utilities is looking to strengthen its utility and power-generating assets with plans to invest around US\$12.4 billion from 2022 to 2026. These investments include strategic acquisitions. Supported by these investments, the company's management expects its adjusted EPS (earnings per share) to grow at an annualized rate of 7-9%. So, given its healthy growth prospects, I believe Algonquin Power & Utilities' dividends are safe. Its dividend yield for the next 12 months stands at a healthy 5.1%. AQN's valuation looks attractive, with the NTM (next 12 months) [price-to-earnings](#) multiple standing at 18.4.

Considering all these factors, I expect Algonquin Power & Utilities to be a smart buy for income-seeking investors.

TransAlta Renewables

With a forward dividend yield (next 12 months) of 5.2% and an attractive NTM price-to-earnings of 24, **TransAlta Renewables** ([TSX:RNW](#)) would be my second pick. It operates a portfolio of 50 power-generating facilities and sells a substantial percentage of power produced from these facilities through long-term contracts. These long-term contracts shield the company's revenue from price and volume fluctuations, thus delivering stable cash flows. The weighted average life of these contracts stands at 11 years.

TransAlta Renewables could benefit from the growing shift towards cleaner energy. The company is increasing its production by adding 381 gigawatt-hours of capacity in the first six months of this year. Given its growth initiatives, management expects to generate an adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) of \$485–\$525 million this year. With liquidity of \$0.8 billion as of June 30, the company's financial position also looks healthy.

Canadian Utilities

My final pick would be **Canadian Utilities** ([TSX:CU](#)), which has raised its dividends for the last 50 consecutive years. The diversified energy infrastructure company operates low-risk regulated utility assets generating stable and predictable cash flows, allowing it to raise dividends consistently. With a quarterly dividend of \$0.4442/share, the company's forward yield stands at 4.43%.

Meanwhile, the company continues to expand its assets base, with capital investments of over \$550 million in the first six months of this year. Of these investments, 83% were in regulated utilities, while the remaining 17% were in energy infrastructure. These new investments and solid underlying businesses could drive the company's cash flows in the coming quarters, thus permitting it to maintain its dividend growth. Meanwhile, its balance sheet looks healthy, with \$1.1 billion in cash by the second quarter's end.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:RNW (TransAlta Renewables)

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