



Got \$1,000? Buy These 2 Cheap Under-\$20 Dividend Stocks

Description

Last week, the chairman of the Federal Reserve of the United States, Jerome Powell, announced that the central bank would take stringent measures, including interest rate hikes, to stem inflation. He warned that these measures could cause some pain to the U.S. economy. So, these announcements have made investors nervous, increasing the volatility in the global equity markets.

Amid the volatile environment, investing in quality [dividend stocks](#) would be prudent, as these stocks provide stability to your portfolio and deliver passive income. Here are two cheap dividend stocks that you can buy for under \$20.

Algonquin Power & Utilities

Algonquin Power & Utilities ([TSX:AQN](#))([NYSE:AQN](#)) is a utility company involved in electricity, water, and natural gas transmission and distribution. It also operates a portfolio of renewable power-producing facilities. It has signed long-term contracts to sell around 82% of the power produced from these facilities, thus avoiding price and volume fluctuations. Given its low-risk utility business and regulated power-generating facilities, the company delivers stable and reliable financials, irrespective of the economy.

Supported by its reliable cash flows, Algonquin Power & Utilities has raised its dividend for the last 12 years at a compounded annual growth rate (CAGR) of over 10%. With a quarterly dividend of US\$0.18/share, the company's yield for the next 12 months stands at 5.25%. The company has committed to invest around US\$12.4 billion from 2022 to 2026, including US\$3.6 billion in renewable energy. Amid these investments, the company's management expects its rate base to grow at a CAGR of 14.6%, while its adjusted EPS (earnings per share) could grow at a rate of 7-9%.

With the company targeting to pay 80-90% of its normalized earnings as dividends, I believe Algonquin Power & Utilities is in an ideal position to maintain its dividend growth. The company trades at 17.9 times its earnings for the next four quarters. So, considering its healthy growth prospects, reasonable valuation, and attractive dividend yield, I am bullish on Algonquin Power & Utilities.

TransAlta Renewables

Amid the rising pollution levels, governments, businesses, and individuals are increasingly transitioning towards cleaner energy. Meanwhile, Allied Market Research projects the renewable energy market to grow at a CAGR of 8.4% from 2021 to 2030. Amid the expanding [renewable energy market](#), I have selected **TransAlta Renewables** ([TSX:RNW](#)), which owns and operates a portfolio of renewable and non-renewable power-generating facilities with a total power-producing capacity of 2.9 gigawatts, as my second pick.

The company has signed long-term agreements to sell the power produced from its facilities, with the weighted average remaining life of contracts standing at 11 years. Supported by these long-term agreements, the company delivers stable and reliable cash flows, allowing the company to pay dividends consistently.

For this year, the company's management projects its payout ratio to be around 88-102%, which is not sustainable in the long run. However, TransAlta Renewables's management expects to reduce the payout ratio to 80-85%, which is encouraging. Meanwhile, the company currently pays a monthly dividend of \$0.07833/share, with its yield at 5.44%.

Adding new capacity, extending its contracts, and favourable price revisions could drive its growth in the coming quarters. The company also focuses on strategic acquisitions to expand its footprint. Since going public in 2013, the company has made acquisitions worth \$3.4 billion. The company currently trades at 21.4 times its next four-quarter earnings, which is lower than its historical average. So, considering all these factors, I believe TransAlta Renewables is an excellent buy right now.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
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3. TSX:RNW (TransAlta Renewables)

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