3 Canadian Dividend Stocks That Are Dirt Cheap Right Now

Description

Yesterday, the U.S. Federal Reserve, the Fed, raised the benchmark interest rate by 75 basis points, marking the third successive rate hike of 75 basis points in the past four months. Meanwhile, the central bank expects further monetary tightening measures while projecting the benchmark interest rate to reach 4.6% next year. The rising interest rates could raise borrowing expenses, thus putting pressure on the equity markets.

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Amid the rising volatility, investors could look to buy quality dividend stocks to strengthen their portfolios. Due to their solid underlying businesses and regular payouts, these companies are less susceptible to market volatility. Here are my three top picks.

Suncor Energy

The recession fears and lower demand in China amid lockdown have led oil prices to fall, with West Texas Intermediate (WTI) crude correcting over 35% from its March peak. The decline in oil prices has dragged **Suncor Energy's** (TSX:SU)(NYSE:SU) stock price down. SU currently trades close to a discount of 24% from its 52-week high, while its NTM (next 12 months) price-to-earnings multiple stands at an attractive 4.5.

Amid the weakening demand, OPEC (Organization of the Petroleum Exporting Countries) has announced plans to reduce its production by 100,000 barrels per day for October. So, it is unlikely that oil prices could substantially decline from their current levels. Meanwhile, Suncor Energy can break even and pay dividends, provided WTI crude oil trades around US$35/barrel. With oil prices trading at more than double the company's breakeven price, I expect Suncor Energy to continue delivering solid performance.

In the first six months of this year, Suncor Energy's cash flows from operations increased 65% over the previous year to $7.3 billion. Awash in solid cash flows, the company raised its dividend by 12% to $0.47/share in May, with its dividend yield currently at a juicy 4.6%. So, considering all these factors, I am bullish on Suncor Energy.

Algonquin Power & Utilities

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN) would be my second pick. The utility and renewable energy company has delivered solid performance over the last five years. Its revenue and adjusted net income have grown at a CAGR (compounded annual growth rate) of 15% and 22.7%, respectively, driven by a solid underlying business and strategic acquisitions. Supported by these impressive performances, the company has consistently increased its dividends. Over the last 12 years, it has raised dividends at a CAGR above 10%, while its dividend yield stands at a healthy 5.71%.

Meanwhile, Algonquin Power & Utilities is expanding its utility and renewable asset base with an investment of US$12.4 billion through 2026. These investments also cover its acquisitions. Through these growth initiatives, the company's management expects to grow its adjusted EPS (earnings per share) at an annualized rate of 7-9%. However, with the recent sell-off in the broader equity markets and weakness in the renewable sector, the company trades at a cheaper NTM price-to-earnings of 16.5, making it an attractive buy.

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TC Energy

With an excellent track record of dividend growth, regulated asset base, and high dividend yield, **TC Energy** (TSX:TRP)(NYSE:TRP) would be my final pick. The company operates a regulated midstream business, with around 95% of its adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) generated from regulated assets and long-term contracts. So, its cash flows are stable and predictable, thus allowing the company to raise its dividend consistently. Since 2000, the company has increased its dividends at a CAGR of 7%. Its dividend yield currently stands at a healthy 5.75%.

Meanwhile, North America's liquefied natural gas (LNG) exports could grow by 90% in the next eight years as European countries impose sanctions on Russia. The growth in exports could boost the demand for TC Energy's services. The company is also strengthening its asset base with a planned annual investment of $5 billion through 2030. Amid these growth initiatives, the company's management hopes to raise its dividend at an annualized rate of 3-5% in the coming years.

However, amid the recent pullback, TC Energy has lost over 15% of its stock value compared to its June highs. Besides, its NTM price-to-earnings has declined to 15.3, making it an excellent addition to your portfolio.

CATEGORY

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2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
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