



## Income Investors: 3 Cheap Dividend Stocks With +6% Yields

### Description

It's true that inflation remains at elevated levels in multiple economies, including the United States and Canada, and the respective central banks are continuing to raise target interest rates. The Bank of Canada's goal is a stable inflation of 1-3%.

"Canadian inflation edged down to 7% in August and analysts surveyed by **Reuters** forecast data [today] will show a further dip to 6.8% in September, still far above the central bank's 2% target."  
*Reuters*

Consequently, stock valuations have been depressed. Investors can now embrace opportunities in cheap [dividend stocks](#) with yields of over 6% that weren't imaginable a year ago. Specifically, these [undervalued stocks](#) have corrected 12-21% in the last 12 months.

## TC Energy stock

**TC Energy** ([TSX:TRP](#)) is a defensive [blue-chip stock](#) for investors seeking current income. It's a large-cap energy infrastructure company that has a stable financial position. Additionally, it has the financial flexibility and cash flow to balance dividend growth and investment for future growth.

It enjoys a utility-like business model that allows it to make stable earnings and predictable cash flows. Its assets include natural gas pipelines in Canada, the U.S., Mexico, liquids pipelines, and power and storage.

From 2021 to 2026, TC Energy projects comparable earnings before interest, taxes, depreciation, and amortization (EBITDA), a cash flow proxy, to grow at a compound annual growth rate (CAGR) of 5%. This can support dividend growth at a CAGR of 3-5%.

At about \$58 per share, the dividend stock offers ample income at a dividend yield of 6.2%. The stock is also discounted by approximately 16% to the 12-month analyst consensus price target. Without the

potential valuation expansion, the stock can still deliver low-risk total returns of about 9-11% per year through 2026.

## BNS stock

**Bank of Nova Scotia (TSX:BNS)** is another [large-cap](#), blue-chip dividend stocks you can depend on for passive income. It generates about two-thirds of its adjusted earnings from Canada. These earnings are more than enough to cover its rich dividend.

The bank stock has experienced a bigger decline than its big Canadian bank stock peers because of its exposure to weaker markets in the Pacific Alliance countries that made up approximately 18% of its adjusted earnings in fiscal 2021.

The dividend stock trades at close to the pandemic market crash low (based on the price-to-earnings ratio). This is a discount of over 30% from its normal long-term valuation. Currently, at \$66.54 per share at writing, investors can enjoy a juicy yield of almost 6.2%.

## Algonquin stock

**Algonquin Power & Utilities (TSX:AQN)** is a rising star in the regulated utility industry. It's about 37% the size of its larger peer, **Fortis**, based on enterprise value. Its smaller size has supported Algonquin's higher growth rate that drove a 10-year dividend-growth rate of 9.5% (versus Fortis's 5.9%).

Currently, about 80% of Algonquin's portfolio are regulated utilities. Its diversity is vast. It has regulated utilities in natural gas, electric, and water. The remainder of its portfolio is a non-regulated renewable energy portfolio in wind, solar, hydro, and thermal that are predominantly backed by long-term contracts.

The stock is down about 21% in the last year. As a result, its dividend yield has been pushed up to almost 6.8%. At \$14.72 per share at writing, analysts believe the stock is substantially discounted by 31%.

If it takes five years for this valuation expansion to occur, the price appreciation would add annualized returns of 7.7%. In other words, AQN stock's estimated five-year total return is attractive at a CAGR of about 14.5%. This return forecast did not include the growth potential of its earnings or cash flow.

With these high-yield stocks, investors can better focus on income generation instead of getting discouraged by the current wide-swinging stock price volatility.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:BNS (The Bank of Nova Scotia)

3. NYSE:TRP (Tc Energy)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:TRP (TC Energy Corporation)

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