TFSA Investors: Buy and Forget This Top Oversold Dividend Stock

Description

While the TSX is down in general, there are actually few oversold stocks right now. An oversold stock is one that is at a relative strength index (RSI) of 30 or under, but there are a lot of considerations when looking for oversold stocks. Today, I'm going to look at one that ticks off all the boxes. And it's a dividend stock you're going to want to hold long term in your Tax-Free Savings Account (TFSA).

Algonquin Power & Utilities

Shares of **Algonquin Power & Utilities** (TSX:AQN) fell dramatically this month on earnings. The company reported earnings that fell dramatically below estimates, and it cut its 2022 earnings forecast as well. Furthermore, the company predicted that its long-term growth targets were also on the rocks.

After over a decade of what seemed like unstoppable growth thanks to organic and acquisition growth, it looked like this could never come to an end. And yet, investors are bracing themselves for a dividend cut.

This uncertainty has led many analysts to reduce their targets but also to no longer recommend the company. However, if you're a long-term investor, now could be the time to buy.

Yes, a dividend cut looks likely

Algonquin stock now looks like it's no longer going to be the Dividend Aristocrat it's been in the past. Right now, it currently holds a yield at 9.55%. That's what happens when your shares drop by 43% year to date, after all. To give the company some room to breath, Algonquin stock could cut it dividend up to 50% in the near future.

But the big question is, how long can this last? Algonquin stock stated the reason behind these issues were sharply rising interest rates and delays on renewable energy projects, to name a few. So, in the near future, it looks like these are issues that may even out over the next year or so.

Yet this does look like an issue that could bleed into years of problems for Algonquin stock, with the company not set up for strong borrowing rates.

High risk and high reward?

Algonquin stock could create some growth through asset sales and fewer acquisitions than we've seen in the past. It already announced the sale of its 49% interest in three wind facilities in the U.S. for US$278 million, along with 80% interest in a Canadian wind farm for $107 million.

While analysts don't believe there's going to be a sudden move that could push shares higher, long-term holders could see things turn around. That being said, it could be quite the long-term investment — like, a decade or more. And that is usually what we recommend here at the Motley Fool, anyway.

But there are certainly some caveats to this investment strategy. If you're a young investor with decades of growth ahead of you, some risk in this company could be just fine for your overall portfolio. If you're a retiree looking for a solid dividend stock to produce income within the next decade though, this is an investment I would avoid for now.

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