Better Recession Investment: Hydro One or TC Energy Stock?

Description

With a Canadian recession on the way, investors had better think about how their portfolios will fare and if they're ready for a repeat of 2022. Indeed, 2023 could see relief, but investors should tread carefully and curb their rebound expectations.

We've all been conditioned to buy dips and expect V-shaped recoveries. Though only time will tell how quick the rebound will be from the 2022 bear market, I think value investors who select their way into undervalued securities will have what it takes to not only beat the TSX Index but score a positive return in what could be a down year.

Recession looms: Defensive investing in mind

At this juncture, playing defence is on everyone's mind. As a result, valuations in top utilities and dividend payers have crept higher. The growth-to-value rotation has been in full swing for most of 2022. That doesn't mean it's time to buy growth and ditch value. Contrarian investors should look to add to battered tech. However, I think there's more value (and safety) to be had in a select number of TSX stocks that still trade at reasonable multiples.

In this piece, we'll have a look at two of the steadiest dividend payers that appear to be trading at reasonable multiples. These stocks could be key to doing well over time, regardless of what Mr. Market throws at us next!

Consider **Hydro One** (TSX:H) and **TC Energy** (TSX:TRP) stocks, which sport dividend yields of 2.96% and 6.19%, respectively, at the time of writing.

Hydro One

Hydro One may be one of the most bond-like stocks in the stock market today. The company has a monopolistic position in the Ontario transmission space. Undoubtedly, Hydro One's cash flows are subject to far less volatility than your average stock. Any given quarter is likely to be a bit of snoozer. That's a good thing in this kind of rocky market, though!

In two of the past four quarters, Hydro One has reported results within a penny of the estimates. Indeed, the lack of shock makes Hydro One a sleep-easy dividend payer for investors. Due to less earnings choppiness, the stock sports a 0.26 beta, meaning shares are less likely to take into account factors that move the broader markets.

At 22 times trailing price to earnings (P/E), H stock is a fairly valued dividend stock to ride out hard times.

TC Energy

For investors seeking more reward (for more risk), TC Energy stock looks tempting at these levels. The stock has a low beta of 0.84, meaning TRP stock is less volatile than the market but more volatile than H stock. The 6.19% yield is the star of the show. And it's a secure payout despite sporting a payout ratio on the higher end.

With energy stocks calling the shots, I view TC, a top-tier midstream company, as a defensive dividend payer with greater potential rewards.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)
2. TSX:TRP (TC Energy Corporation)

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