Outpace the Market in 2023 With 2 Top Dividend Stocks

Description

Investing in individual stocks can be quite tricky. You need to analyze a company's financials to gauge its ability to maintain or expand earnings, service debt obligations, and strengthen its balance sheet over time.

The stock market selloff in 2022 showcased the volatile nature of this asset class. Several growth investors saw their portfolio values plummet, as investors were worried about the steep multiples surrounding these companies. Further, interest rate hikes, inflation, and the threat of an economic recession drove growth stocks across sectors toward multi-year lows.

Now, several experts are predicting value stocks to outpace growth stocks in the next decade. So, it makes sense to allocate a portion of your portfolio towards quality value stocks that also pay investors a dividend.

Generally, companies that pay you a dividend generate cash flows across economic cycles. As dividend yields and stock prices are inversely related, investors can now buy top TSX stocks that offer an attractive payout.

Here, I have identified two such dividend stocks investors can buy in 2023.

Bank of Nova Scotia

One of the largest Canadian companies, **Bank of Nova Scotia** (TSX:BNS), currently offers investors a dividend yield of 6.2%. Down 29% from all-time highs, BNS stock is one of the cheapest stocks on the TSX.

Despite a challenging macro environment, BNS is forecast to end fiscal 2023 with adjusted earnings of $8.32 per share. So, BNS stock is valued at less than nine times forward earnings, which is quite reasonable.

In the last 20 years, the banking giant has increased its dividend payouts at an annual rate of 8.5%, which is quite remarkable. Compared to its peers south of the border, BNS is quite conservative. But this approach has allowed it to maintain dividends, even during the financial crash of 2008.

BNS has a well-capitalized balance sheet and is trading at a discount of 20%, given consensus price target estimates. After accounting for its dividend yield, BNS stock might return close to 27% in the next year.

Canadian Utilities

A diversified energy infrastructure company, **Canadian Utilities** (TSX:CU) operates multiple business segments such as Utilities, energy infrastructure, and retail energy. Its robust business model has allowed Canadian Utilities to increase dividends each year for 50 consecutive years — the highest record among TSX stocks.

Canadian Utilities aims to expand dividends in line with its earnings, which, in turn, depends on regulated and long-term contracted investments. The company emphasizes that its contracted and regulated earnings base allows it to generate consistent cash flows and support dividend increases.

Canadian Utilities pays investors annual dividends of $1.78 per share, indicating a forward yield of 4.8%. In the last two decades, these payouts have risen by 6.5% annually.

Between 2022 and 2024, Canadian Utilities aims to invest $3.5 billion in regulated utility and commercially secured energy infrastructure projects. These investments are expected to expand cash flows in the future, providing the utility giant with the financial flexibility to reinvest in capital expenditures, lower its debt, or increase dividends.

In the next five years, Canadian Utilities is expected to expand earnings at an annual rate of 6.2%, showcasing its pricing power in an inflationary environment. CU stock is a top bet for those looking to create a passive-income stream.

CATEGORY

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Date
2025/08/12
Date Created
2023/01/15
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