



TSX Stocks on Sale: Algonquin Power & Utilities, Fortis, and More

Description

As central banks worldwide take monetary tightening initiatives, economists are projecting a global economic slowdown. Indeed, the disappointing December retail sales in the United States have raised the fear of recession. So, given the volatile outlook, it is wise to strengthen your portfolio with dividend stocks that are trading at attractive valuations. Here are my three top picks.

Algonquin Power & Utilities

Algonquin Power & Utilities ([TSX:AQN](#)) is a utility and renewable energy company that has witnessed substantial selling over the last few months due to weak third-quarter performance and rising interest rates. It has lost around 53% of its stock value compared to its 52-week high while trading at 11.6 times its projected earnings for the next four quarters. Meanwhile, management has slashed its 2022 EPS (earnings per share) guidance amid the delay in the completion of some renewable energy facilities and an expectation of a hold-up in price revisions.

The green power producer is preparing for growth in renewable energy demand. AQN is working on closing the acquisition of Kentucky Power Company and Kentucky Transmission Company. It has also taken several cost-cutting initiatives and announced selling around US\$1 billion of its assets to lower its debt levels. Further, the company slashed its quarterly [dividend](#) from US\$0.1808/share to US\$0.1085/share, with its yield for the next 12 months standing at 4.64%.

Crucially, the company generates substantial revenue from regulated utility businesses. So, I expect its financials to be stable and predictable in the coming years. Considering its cheaper valuation, solid underlying business, and healthy dividend yield, AQN would be an ideal buy in this volatile environment.

Fortis

Fortis ([TSX:FTS](#)) services around 3.4 million customers across North America, meeting their electricity and natural gas needs. With approximately 93% of its assets engaged in the low-risk transmission and

distribution business, the utility generates stable and reliable revenue irrespective of the economic outlook. Supported by these stable cash flows, the company has increased its dividends uninterrupted for the last 49 years. The dividend yield for the next 12 months stands at 4.05%.

However, over the last few months, FTS stock has been under pressure, losing 14.4% of its stock value compared to May highs. Given its capital-intensive business, investors are worried that rising interest rates could increase its interest expenses, thus hurting its profit margins. Meanwhile, the correction has dragged its NTM (next 12 months) price-to-earnings down to 18.6.

Noteworthy, Fortis has committed to investing approximately \$22.3 billion through 2027, expanding its rate base at an annualized rate of 6.2%. Thus, management is confident of raising its dividends at an annualized rate of 4–6% through 2027. So considering its solid track record, stable business model, and healthy dividend yield, I believe Fortis would be an excellent buy at these levels.

TC Energy

My final pick would be **TC Energy** ([TSX:TRP](#)), trading at a discount of 22.5% from its 52-week high. The announcement of leaks at Keystone Pipeline has weighed on the company's stock price. The recent pullback has dragged its valuation down, with its NTM [price-to-earnings](#) at 13.6.

Meanwhile, TC Energy operates a midstream energy business, with approximately 95% of its adjusted EBITDA (earnings before interest, tax, depreciation, and amortization) produced from rate-regulated assets and long-term contracts. Further, the company is focusing on expanding its rate base and has planned to invest around \$34 billion through 2026. The resultant cash flows could grow its adjusted EBITDA at a CAGR of 6%.

So, TC Energy could maintain its dividend growth in the coming years. TRP stock has raised its dividends uninterrupted at an annualized rate of 7% since 2000. Also, the company could benefit from growing LNG (liquefied natural gas) exports from North America to Europe.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:FTS (Fortis Inc.)
3. TSX:TRP (TC Energy Corporation)

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