Introducing 2 of the Newest Canadian Dividend Aristocrats

Description

The new year rung in a wave of optimism on Wall and Bay Street, with stock markets clawing back some of the ground lost last year. Undoubtedly, the Bank of Canada is hitting the pause button on its rate hikes. I'd look for the U.S. Federal Reserve, which previously trailed the Bank of Canada on the first rate hikes, to do the same.

Though rate cuts seem less likely, it certainly seems like market action in 2022 has fully considered the implications of a 2023 recession. As markets look beyond a looming (and likely modest) recession, don't be so surprised to see stocks trending higher as they meet the now-lowered expectations, all while last year's inflation-driven and supply-chain headwinds begin to subside.

Now, it's important to temper your enthusiasm, as Wall Street talk becomes more optimistic and fear turns to greed. Remember, market sentiment can swing excessively in both directions, setting up the stage for potentially drastic pullbacks. That's why investors should stick with proven stocks at decent multiples.

Looking for quality? Look no further than the Dividend Aristocrats club!

For such stocks, we'll look at two newcomers to the Canadian Dividend Aristocrats index. As you may know, the index is an exclusive club for companies with histories of increasing payouts in all sorts of environments. Recession, correction, pandemic, and bearish panics haven't rattled their dividends or dividend-growth policies.

The S&P/TSX Canadian Dividend Aristocrats Index recently added (and subtracted) a handful of names. **Tourmaline Oil** (TSX:TOU) and **Hydro One** (TSX:H) are two of the most intriguing names added to the index earlier last month.

It's not only their growing dividends that make both names worthy replacements of the stocks being removed from the Dividend Aristocrats Index, it's their recent performance. Now, momentum is no guarantee of things to come. Chasing stocks is a dangerous game. However, what separates the two firms is their shares remain quite attractively valued. If earnings can support their share prices, I see no reason to pass on either name just because of their recent bouts of outperformance.

Tourmaline Oil

Tourmaline Oil is one of the hottest mid-cap energy stocks in the oil patch. Shares have doubled up many times over since the depths of 2020. Indeed, Tourmaline stock can't run at such a pace forever. In recent months, the stock has taken a big hit to the chin, falling around 27% from its peak. Sky-high oil prices may not be in the cards as a recession approaches. However, for the long-term oil bulls, Tourmaline is the high-beta (1.7 at writing, which means shares are far more volatile than the averages) stock that could have the most to gain.

I think Tourmaline Oil's latest slip has created an attractive entry for oil bulls. The stock trades at 3.7 times trailing price-to-earnings (and around 5.4 times forward price-to-earnings). While harder times ahead will weigh on the firm's earnings stream, I still see prosperous days for the up-and-coming oil star.

Tourmaline's 1.66% dividend seems ripe for growth. But for most, the main attraction is the upside potential.

Hydro One

Hydro One is one of the stablest utilities and has been a wonderful bond proxy for safety-seeking investors through 2022. The inclusion into the Dividend Aristocrats Index is well-earned. Hydro One may not have as long a dividend history as its peers. However, it does have one of the widest moats protecting its economic profits in the province of Ontario.

Like Tourmaline, Hydro One has been on a nice multi-year rally that didn't end in 2022. At writing, the stock is off 5.5% from its all-time highs, with a 3.12% dividend yield and a low 0.28 beta. At 20.9 times trailing price-to-earnings, the stock seems reasonably valued for the type of stability you'll get.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:H (Hydro One Limited)
2. TSX:TOU (Tourmaline Oil Corp.)

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