TFSA Income Investing: 2 Utility Stocks to Buy While They're on Sale Now

Description

Tax-Free Savings Account (TFSA) investors shouldn't get too far ahead of themselves, as the 2023 market rally continues into the midpoint of the quarter. Indeed, sentiment has turned on a dime, with the Federal Reserve and Bank of Canada now ready to take their foot a tad off the gas. While the year-end price targets of various market strategists how now been passed, with the S&P 500 just one big up day away from hitting the 4,200 mark, I'd argue that TFSA investors should forget about such calls and focus on the value that exists today.

Though the bear market is still fresh in the minds of many investors, it's worth noting that new bull markets are born when things seem most gloomy. On the flip side, bears are born when markets overstretch themselves, and retail investors forget about valuation.

In this piece, we'll have a closer look at two utility stocks that seem like great additions to any TFSA income investor portfolio. As investors ditch safety plays for risk-on growth stocks, the following two names stand out as great value options for those seeking passive income on the cheap.

Algonquin Power & Utilities (TSX:AQN) and **Fortis** (TSX:FTS) are two steady utility plays that have very different risk profiles after a treacherous 2022. I think both names make for intriguing pickups.

Algonquin Power & Utilities

Algonquin is a dividend heavyweight and utility juggernaut that broke a lot of hearts last year, as shares imploded ahead of its dreaded dividend reduction. At the start of last year, few TFSA investors would have thought that the renewable energy kingpin would lose more than 55% of its value. For those unlucky enough to have bought the stock during its all-time high back in February 2021, the peak-to-trough losses exceeded 60%.

Undoubtedly, there are a lot of issues over at Algonquin. Higher rates have certainly weighed on the growth profile. Still, I think the reaction to the stock's latest quarter was a tad overdone. Further, the anticipation of the dividend cut seems to have been overblown.

Sure, reduced dividends are never a good sign. However, for those with a long-term horizon, I think there's a lot of value to be had in AQN stock at these depths. You're getting some wonderful cash flow-generative renewable and utility assets at a historic discount.

The company could look to divest in an effort to improve its financial flexibility, which would weigh further on growth. Regardless, Algonquin's weak 2023 guidance has already caused so many to throw in the towel on the stock.

Personally, I'd rather own shares of a troubled firm with low expectations and a plan to overcome headwinds than a firm with unrealistically high expectations and an investor base that keeps demanding more. At writing, shares trade at one times price to book (P/B), which, I believe, comes alongside a margin of safety.

Fortis

Algonquin is more of a risk-on play following last month's dividend reduction. Fortis may have slumped into a bear market at its worst last year. Still, the utility juggernaut continues to boast solid fundamentals at a valuation that's tough to pass up in this choppy (potentially recessionary) environment. The stock trades at just north of 20 times trailing price to earnings with a 4.14% dividend yield.

Looking ahead, Fortis plans to make more clean-energy investments. Over the next five years, Fortis will spend $5.9 billion. As Fortis's mix gets cleaner, I think there's room for the stock's multiple to expand. In any case, the 6% "rate base" seems sustainable for the top utility play.

Finally, the 0.17 beta pretty much makes Fortis a place to "hide" as recession headwinds look to kick it up a notch going into the spring and summer.

CATEGORY

1. Investing

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1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:FTS (Fortis Inc.)

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Author
joefrenette