2 Oversold Dividend Stocks for Income Investors

Description

Recent weakness in the Canadian stock market is starting to produce some of the best deals income investors have seen in quite a while.

There is growing sentiment that the six-year bull market in equities might be coming to an end. As a result, nervous investors are starting to exit anything that looks expensive, especially if it could be affected by rising rates, and that includes dividend stocks.

The U.S. will probably begin the slow process of increasing rates by the end of this year. Canada, on the other hand, might continue in the other direction for some time.

I think the market is getting ahead of itself and the road of recovery to "normal" interest rates is probably going to be a long and bumpy one.

With this thought in mind, here are the reasons I think income investors should consider adding **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) to their portfolios.

TransCanada Corporation

TransCanada is down more than 17% from the highs it hit last October as investors worry that the ongoing rout in the energy patch and difficulties tied to major projects will affect earnings.

It is true that smaller, highly leveraged oil and gas companies are struggling and production in some shale plays is slowing down, but the overall long-term outlook for the storage and distribution of natural gas, crude oil, and gas liquids is still very strong.

Most of TransCanada's customers are major producers with assets that should continue to produce increasing amounts of oil and gas for decades. These companies have billions invested in their production facilities and have long-term contracts with TransCanada that provide predictable cash flow.

The media likes to focus on difficulties surrounding TransCanada's Keystone XL and Energy East mega projects. Energy East will probably get built, and investors should treat Keystone as a bonus, but TransCanada also has $12 billion in smaller projects it plans to complete and put into service over the next three years. This should ensure continued cash flow and dividend growth as the company works to get one or both of the big pipelines built.

TransCanada currently trades at a reasonable 19 times forward earnings and pays a dividend of $2.08 per share that yields 4.1%.

BCE Inc.

Over the past several years BCE has gone from being a boring old telephone company to a dynamic media and communications giant, but it still delivers the same consistent dividend growth that investors have come to expect for decades.

Today BCE gets a piece of just about every part of the Canadian digital-communications pie. If you listen to the radio, watch the news on TV, stream a video, surf the net for a recipe, text your friend, or buy a new smartphone, you are probably putting some money into BCE’s pocket.

The company has invested billions in creating such a dominant network right across the country that it is well positioned to fend off any competitive threats. Investors should remember that the Canadian media and communications market is essentially an oligopoly. This might not be great for consumers, but it is fantastic for BCE’s shareholders.

The company is now trading about 10% below the high it hit earlier this year. The current dividend of $2.60 per share yields about 4.8%, which will remain an attractive return even when interest rates start to creep up.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:BCE (BCE Inc.)
4. TSX:TRP (TC Energy Corporation)

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Date
2025/09/13
Date Created
2015/06/10
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