Cheap But Valuable Dividend Stocks to Buy Now

Description

A value stock is a stock that trades at less than what it's worth. So, the idea is that you buy these businesses when they're cheap compared with their fair values and sell them for gains when they recover.

The catch is that these stocks are cheap for a reason. You must believe that the problems they're facing are temporary in order to be able to hold on to them after buying them.

Here are a couple of dividend stocks that I believe are valuable, but trade at levels that are less than what they're worth.

Regional bank opportunity

Canadian Western Bank's (TSX:CWB) banking operations are focused on the west side of Canada. Specifically, 42% of its loans are in Alberta and 7% are in Saskatchewan. The concentration of loans in those provinces, low resource prices, and the potential drag those resource prices have on the economy are dragging down the bank's stock price.

The bank hit a high of $43 per share in 2014. Today it trades under $26 after falling about 40% from that high. However, its business isn't doing nearly as badly as its stock price.

The bank's low write-offs relative to its level of gross impaired loans reflect secured lending practices and disciplined underwriting. Further, when ignoring one-time sale items, Canadian Western's third-quarter earnings were only 3% lower than 2014 in the same period.

Canadian Western Bank is a business that has a strong dividend-growth history of 23 consecutive years. Further, the bank is trading under a multiple of 10 with a potential of reaching a multiple of 15. That multiple implies a price of at least $39 per share.

At under $26, the bank is undervalued by 33% and yields 3.4%. The last time it reached this yield was in the 2008-2009 recession. The high yield and big discount from its fair value make Canadian Western a deep value opportunity.

If Canadian Western Bank trades at a multiple of 15 again, I'm likely to offload some shares.

Residential REIT opportunity

Boardwalk REIT (TSX:BEI.UN) has fallen close to 32% from a 2014 high of $71 to its current price of under $48. Boardwalk REIT is a residential real estate investment trust (REIT) that owns over 34,000 apartments and receives stable rental income from them.

Its price decline is probably attributed to the fact that 65% of its operating income comes from Alberta and 14% comes from Saskatchewan. The REIT continues to maintain high occupancy rates of above 96%, indicating its quality and strength.

Boardwalk REIT has maintained its distributions since 2001. Although it doesn't increase its distribution every year, it has increased its distribution at a compound annual growth rate of 5.5% in the last decade. In addition, its payout ratio of under 70% provides a margin of safety for its distribution. At $48, it yields a safe 4.3% yield.

In extreme cases Boardwalk REIT had traded at price-to-funds-from-operations ratios (P/FFO) of 11, 21, or higher. However, its normal P/FFO is around 15.7. Today it has a P/FFO of 13.6, which is 13.8% cheaper than the normal price of $55.7 per unit.

If Boardwalk REIT trades above a P/FFO of 21 again, I'm likely to offload some shares.

REITs pay out distributions that are unlike dividends. If you wish to avoid the tax-reporting hassle, you should buy REITs in a TFSA or an RRSP.

In conclusion

If you believe resource prices are going to recover somewhat, consider Canadian Western Bank and Boardwalk REIT today because they're well-managed businesses that are indirectly affected by low commodity prices. At cheaper multiples today, they are likely to lead to nice gains in a commodity-price recovery. While you wait, you can cash in on their yields of 3-4%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BEI.UN (Boardwalk Real Estate Investment Trust)
2. TSX:CWB (Canadian Western Bank)

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