2 Dividend Stocks That Are 50% Off

Description

To reduce risk and invest for higher returns, investors should consider companies that are on sale. Other than their cheap valuations, dividend stocks that are on sale add another safety net for shareholders because shareholders get a positive return from dividends while they wait for the stock prices to appreciate.

Business that are half price

Canadian Western Bank (TSX:CWB) and **Dream Office Real Estate Investment Trst** (TSX:D.UN) are dividend stocks that are 50% off.

After the last recession Canadian Western Bank traded at 15 times its earnings multiple times. Yet it's only priced at eight times its earnings at $21 per share. So, the shares are discounted by 48%.

At $15, Dream Office is priced at 55% off its book value. The REIT is also 47% off from its net asset value (NAV) as of the end of November.

Why are they so cheap?

Canadian Western Bank's stock price has declined gradually since September 2014. Dream Office's stock price has declined gradually since May 2015. Both are negatively affected by their exposure to Alberta and low oil prices.

Canadian Western Bank has 47% of its loans from Alberta. The lower oil prices go and the longer they stay low, the more worried shareholders are of increases in credit losses.

Roughly 40% of Dream Office's leasable space is in Alberta, and 26% of the REIT's net operating income (NOI) comes from that province. Almost 81% of its Albertan NOI comes from central business districts in Calgary and Edmonton. Unitholders worry about increased office vacancy in Alberta the longer oil prices stay low.

How have low oil prices really affected the businesses?

Canadian Western Bank's provision for credit losses (as a percentage of average loans) only increased by two basis points to 17 basis points from 2014 to 2015. This is lower than the bank's provision for credit losses of 19 basis points from 2011 to 2013. Additionally, the bank's earnings per share only declined by 5% in the fiscal year 2015 that ended in October compared with its share price, which fell 44% for the fiscal year.

In the third quarter that ended in September, Dream Office's downtown Calgary properties were 88.6% occupied, which was 60 basis points higher than the national average, but 2.3% lower than the same period in the previous year.

In the same quarter its suburban Calgary properties were 91.5% occupied, which was 3.4% higher than the national average and 4.3% higher than the same period in the previous year. On top of that, 31% of Dream Office's NOI comes from downtown Toronto, which has a high occupancy of 97.4%.

Are their dividends safe?

Investors should keep in mind that Canadian Western Bank has increased its dividend for 24 consecutive years through thick and thin. With a payout ratio under 35%, the bank's annualized payout of $0.92 per share (4.4% yield at $21 per share) remains safe.

In Dream Office's December presentation: "Over the next three years, Alberta lease expiries represent 4.1%, 3.6% and 2.7% of our total GLA which is spread across 35 buildings."

At the end of November Dream Office's adjusted funds-from-operations payout ratio was 99%, which leaves little room for error before its distribution is unsustainable. On a bright note, this payout ratio is the same as it was at the end of December 2008 when it had higher debt levels and the interest rate on its debt was higher.

For now, Dream Office's cash flows cover its distribution of 15%. That said, the company could choose to cut its distribution if it believes it's more prudent to do so. However, historically, Dream has never cut its distribution since starting it in 2004.

Conclusion

The longer oil prices stay low, the riskier Canadian Western Bank and Dream Office are as investments and the lower their prices might go. That said, the bank's dividend is safer than the REIT's. Additionally, the bank has over 20 years of dividend increases, while the REIT has only maintained it and increased it by two times since 2004.

If oil prices show signs of recovery, both companies' stock prices should head higher. If Canadian Western Bank trades at a multiple of 15 again, it'd imply capital gains of 92% from $21. If Dream Office trades at its NAV again, it'd imply capital gains of almost 90% from $15. Interested investors should have an investment horizon of at least three to five years.

CATEGORY

1. Bank Stocks

2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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