3 Undervalued Stocks With Yields Over 4% to Buy Now

Description

As investors, it's our goal to outperform the overall market each and every year. There are many ways to go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that are undervalued on a forward price-to-earnings basis and have high and safe dividend yields.

I've scoured the market and selected one large cap, one mid cap, and one small cap that meet these criteria perfectly, so let's take a quick look at each to determine which would fit best in your portfolio.

Large cap: Royal Bank of Canada

Royal Bank of Canada (TSX:RY)(NYSE:RY) is the largest bank in Canada with approximately $1.2 trillion in total assets.

At today's levels, its stock trades at just 11.1 times 2016's estimated earnings per share of $6.73 and only 10.5 times fiscal 2017's estimated earnings per share of $7.10, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 12.6 and its industry average multiple of 13.3.

In addition, Royal Bank of Canada pays a quarterly dividend of $0.81 per share, or $3.24 per share annually, which gives its stock a yield of about 4.3%. Investors must also note that it has raised its annual dividend payment for five consecutive years, and its recent increases, including its 2.5% hike in February, has it on pace for 2016 to mark the sixth consecutive year with an increase.

Mid cap: Domtar Corp.

Domtar Corp. (TSX:UFS)(NYSE:UFS) is one of the world's leading distributors of fibre-based products, including communication papers, specialty and packaging papers, and absorbent hygiene products.

At today's levels, its stock trades at just 12.5 times fiscal 2016's estimated earnings per share of US$3.00 and only 10.9 times fiscal 2017's estimated earnings per share of US$3.44, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.2 and its industry average multiple of 18.9.

In addition, Domtar pays a quarterly dividend of US$0.40 per share, or US$1.60 per share annually, which gives its stock a yield of about 4.25%. Investors must also note that it has raised its annual dividend payment for five consecutive years, and its 6.7% hike in February 2015 has it on pace for 2016 to mark the sixth consecutive year with an increase.

Small cap: Morneau Shepell Inc.

Morneau Shepell Inc. (TSX:MSI) is Canada's leading provider of health and productivity, administrative, and retirement solutions.

At today's levels, its stock trades at just 18.4 times fiscal 2016's estimated earnings per share of $0.90 and only 16.3 times fiscal 2017's estimated earnings per share of $1.02, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 40.7 and its industry average multiple of 39.2.

In addition, Morneau Shepell pays a monthly dividend of $0.065 per share, or $0.78 per share annually, which gives its stock a yield of about 4.7%. Investors should also note that it has maintained this monthly rate since January 2011, but I think its increased amount of normalized free cash flow, including its 21.9% year-over-year increase to $61.6 million in fiscal 2015, could allow it to announce a significant dividend hike within the next few months.

Which of these stocks belongs in your portfolio?

Royal Bank of Canada, Domtar, and Morneau Shepell are three of the best investment options in their respective industries and market-cap classes. All Foolish investors should strongly consider making at least one of them a core holding.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)
3. TSX:UFS (Domtar Corporation)

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Date
2025/06/30
Date Created
2016/03/23
Author
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