2 Cheap S&P/TSX 60 Components With Great Dividends

Description

As investors, it's our goal to outperform the overall market each and every year. There are many ways you can go about trying to do this, but one of the best and least-risky ways I have found is to buy stocks that meet the following criteria:

- The company is a leader in its industry
- Its stock is undervalued on a forward price-to-earnings basis
- It has a high dividend yield, or it pays a dividend and has an active streak of annual increases

I've scoured the S&P/TSX 60 Index and selected two components that meet these criteria perfectly, so let's take a closer look at each to determine which would fit best in your portfolio.

1. Manulife Financial Corp.

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is one of the world's leading providers of financial advice, insurance, and wealth and asset management solutions, and it's the company behind the Manulife and John Hancock brands.

At today's levels, its stock trades at just 9.7 times fiscal 2016's estimated earnings per share of $1.90 and only 8.7 times fiscal 2017's estimated earnings per share of $2.12, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 91.8 and its industry average multiple of 19.3. These multiples are also inexpensive given the company's estimated 12.2% long-term earnings growth rate.

In addition, Manulife pays a quarterly dividend of $0.185 per share, or $0.74 per share annually, which gives its stock a yield of about 4% at today's levels.

Investors should also make the following two notes.

First, Manulife's two dividend hikes since the start of 2015, including its 9.7% hike in May 2015 and its 8.8% hike in February of this year, have it on pace for fiscal 2016 to mark the third consecutive year in which it has raised its annual dividend payment.

Second, I think the company's very strong financial performance, including its 13.5% year-over-year increase in net earnings to $1.68 per share in fiscal 2015, and its growing asset base, including its 19.2% year-over-year increase in assets under management and administration on a constant currency basis to $935.2 billion in fiscal 2015, will allow its streak of annual dividend increases to continue for the next several years.

2. Pembina Pipeline Corp.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA) is one of North America's largest owners and operators of energy infrastructure assets, including natural gas pipelines, processing plants, fractionators, and storage and terminalling facilities.

At today’s levels, its stock trades at just 29.9 times fiscal 2016’s estimated earnings per share of $1.28 and only 23.3 times fiscal 2017’s estimated earnings per share of $1.64, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 34.7 and its industry average multiple of 63.4. These multiples are also inexpensive given the company’s estimated 16.7% long-term earnings growth rate.

In addition, Pembina pays a monthly dividend of $0.16 per share, or $1.92 per share annually, which gives its stock a yield of about 5% at today’s levels.

Investors should also make the following two notes.

First, Pembina’s two dividend hikes since the start of 2015, including its 5.2% hike in May 2015 and its 4.9% hike in March of this year, have it on pace for fiscal 2016 to mark the fifth consecutive year in which it has raised its annual dividend payment.

Second, I think the company’s consistent growth of cash flows from operating activities, including its 6.3% year-over-year increase to an adjusted $2.53 per share in fiscal 2015, and its growing asset base, including the $1.3 billion worth of assets that were commissioned in 2015, will allow its streak of annual dividend increases to continue going forward.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:PPL (Pembina Pipeline Corporation)

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