I Just Bought These 2 Quality Stocks Near 52-Week Lows

Description

For long-term investors, it doesn't get more exciting than when quality stocks go on sale. As the oil price rallies and the loonie strengthens, it may be time to shop for U.S. stocks.

In fact, there are two dividend stocks that are on sale that I just recently bought. They are **Apple Inc.** (NASDAQ:AAPL) and **Gilead Sciences, Inc.** (NASDAQ:GILD).

Apple products include the iPhone, iPad, Mac computers, and the Apple Watch. Apple also offers services including the iCloud and Apple Pay.

Gilead Sciences is a biopharmaceutical company that researches, develops, and markets innovative medicines in areas of unmet needs, including life-threatening diseases such as HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions.

Both companies have a strong financial profile. Apple has a top S&P credit rating of AA+ and a debt-to-cap ratio of 32%. Gilead Sciences has a quality S&P credit rating of A and a debt-to-cap ratio of 58%.

Dividends

Apple has paid a growing dividend for four consecutive years. It just increased its dividend by 9.6% this month, and its payout ratio is less than 28% with room to grow. At US$93.49, it yields 2.4%.

Gilead Sciences initiated a dividend last year and just increased it by 9.3% this quarter. Its payout ratio is less than 16% with lots of room to grow. At US$82.76, it yields 2.3%.

Are they truly trading at a discount?

Both companies are trading near their 52-week lows. Apple is less than 5% above its 52-week low and almost 30% below its 52-week high. Gilead Sciences is more than 1% above its 52-week low and almost 33% below its 52-week high.

Trading near 52-week lows and significantly below 52-week highs doesn't necessarily mean the securities are discounted. The company price-to-earnings ratio is a better valuation metric.

Apple trades at about 11 times its earnings, and it's expected to grow its earnings per share (EPS) by about 11% in the medium term. Other tech giants with lower growth rates trade at a higher multiple, so Apple is trading at a discount.

Gilead Sciences trades at about 6.7 times its earnings, and it's expected to grow its EPS by about 3% in the medium term. With a growth rate that's barely keeping pace with the long-term inflation rate, it's understandable that the company is trading at a discount compared with its normal long-term multiple in the near term. However, it has multiple product candidates across its focus areas that could contribute to future growth.

Conclusion

Although Apple and Gilead Sciences pay a small dividend of less than 2.5%, both companies have the capability to continue growing their dividends.

Most importantly, the companies are both trading at a discount. So investors can buy them with a margin of safety and a higher risk-adjusted return.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)

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