3 Undervalued Dividend Stocks for Those Seeking a Margin of Safety This Christmas

Description

A margin of safety is a concept that value investors live by. Warren Buffett loves wonderful businesses that are trading at significant discounts to their intrinsic value with a significant margin of safety. If you're a risk-averse investor, it's strongly encouraged that you buy a stock with a margin of safety to minimize your downside.

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Spotting stocks with margins of safety can be tricky, but if you have a look at the bargain bin, there are ways that you can easily decipher whether a stock is undervalued with a margin of safety or if a stock is just cheap and could get cheaper as additional headwinds begin to mount.

Here's a look at five stocks that I believe have a margin of safety at current levels:

Enbridge Inc. (TSX:ENB)(NYSE:ENB)

Enbridge has been a market darling for dividend-growth investors for quite some time. The business has run into troubles of late with uncertainty following its considerable debt load and the Line 3 pipeline.

Some pundits claim that the company hasn't performed well enough to merit a double-digit percentage dividend hike; however, Enbridge is keeping its promise to investors, as it continues on its dividend-growth trajectory.

The company has a new plan that will cut debt while keeping its investors happy. The dividend currently yields a fat 5.42%, and with more dividend hikes on the horizon, now is an opportune time to jump in with shares still down ~25% from all-time highs. It's a high-quality name that I believe has a considerable margin of safety as we head into the new year.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)

When it comes to value in the Canadian financials, it really doesn't get better than CIBC — a stock that many pundits and analysts love to underestimate. With the addition of PrivateBancorp, I think CIBC is an incredible bank that has built a solid U.S. foundation for itself, and the timing couldn't be better, as

Trump looks to give the American economy a boost.

Despite CIBC's recent efforts to become a more robust bank, analysts seem to be focused on CIBC's exposure to the Canadian housing market, which some believe is on the verge of collapsing. That's a far-fetched claim, so realistic investors should do themselves a service by picking up shares, which currently trade at a mere 10.65 price-to-earnings multiple — much lower than its bigger brothers, even after an incredible earnings beat, which surprised many analysts.

Cameco Corp. (TSX:CCO)(NYSE:CCJ)

Cameco is an absurdly undervalued stock that has been beaten up non-stop since the Fukushima disaster, which caused many to be frightened of nuclear energy. While there are many near-term headwinds that could still send the stock lower, over the bigger scheme of things, I think it's fair to say that the stock is pretty close to reaching a bottom, especially when you consider the long-term tailwinds that will likely push up uranium prices and the stock of Cameco.

Cameco is one of the lowest-cost producers out there, and as global markets like China and India gradually warm up to the thought of nuclear power, it's a pretty safe bet that Cameco stock will be much higher five years from now.

We've come to a point where China and India need to consider cleaner sources of energy before their air quality drops to levels where select cities could be deemed inhabitable. Renewable energy is a compelling long-term option, but in the near term, nuclear power is probably the best bet for countries with the largest populations on the planet.

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The dividend got slashed, and production cuts were made, so most of the negativity is already out in the open. Now may be a time to be greedy with a stock that's out of favour.

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Date
2025/09/07
Date Created
2017/12/14
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