Now This Looks More Like a Healthy Stock Market

Description

Stock prices inevitably go up and down. Although investors generally want to see the market go up, it's actually a good thing for it to dip. Markets that dip are healthier. If they don't, then the stocks will eventually be bid up too much and be too expensive to buy.

With the latest market dip, some stocks are now trading at more attractive valuations. Value investors can take a closer look at these stocks.

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) trades at a price-to-earnings (P/E) multiple of about 11.8 at roughly $78 per share. This more or less aligns with its long-term normal multiple. So, the stock is reasonably valued.

Banks will benefit from interest rate hikes. So, analysts have increased the growth forecasts of the banks. In the case of Bank of Nova Scotia, analysts estimate the bank will grow its earnings per share by at least 7.3% per year on average for the next three to five years.

Through Bank of Nova Scotia, investors can gain more international exposure compared to the other Canadian banks. Moreover, Bank of Nova Scotia offers a safe 4% yield. Interested investors should buy some shares here and more on any further dips.

Algonquin Power & Utilities Corp. (TSX:AQN)(NYSE:AQN) trades at a P/E multiple of about 18.5 at roughly $12.90 per share, which is a good value. Higher interest rates will hurt utilities, but Algonquin is more immune to higher rates because of its above-average growth. Algonquin is expected to grow its earnings per share by about 14% per year on average for the next three to five years.

Algonquin is a solid company with power and utility assets. The power portfolio has 1,500 MW of net installed capacity across 38 renewable and clean energy facilities in six provinces and eight U.S. states.

About 88% of the generation is under long-term contracts with an average term of 16 years. This portfolio aims for unlevered after-tax rates of returns of more than 8%, which is quite good.

Algonquin's utility portfolio consists of 33 distribution utilities in 12 U.S. states, including water distribution and waste treatment, electricity distribution, and natural gas distribution. This portfolio is regulated and serves more than 750,000 customers.

Algonquin's profitability is largely regulated or contracted, so its results are pretty predictable. Its 4.5% yield is safe. The company aims to grow its dividend by 10% per year for the next few years while improving its payout ratio.

Investor takeaway

Dips are healthy for stock markets. Can the market go lower from here? Sure, it can. However, that's the beauty of buying individual stocks instead of buying exchange-traded funds or mutual funds; investors can determine the intrinsic values of companies and figure out "buy" price ranges for each stock they want to buy. Right now, Bank of Nova Scotia and Algonquin look like good buys for long-term investors.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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