TFSA Investors: 2 Undervalued Dividend Stocks to Buy Today

Description

If you are looking to find value in today's market, it is not an easy task amid so much confusion and volatility. But if you dig a little deeper, there are still many opportunities for long-term investors who want to use their Tax-Free Saving Accounts (TFSAs) to buy and hold these value stocks.

With this theme in mind, let's look at **Laurentian Bank of Canada** (TSX:LB) and **Equitable Group Inc.** (TSX:EQB) to see if they offer any value for long-term investors.

Laurentian Bank

After a 12% pullback this year, Montreal-based Laurentian Bank stock is looking attractive to me. The main drag on this lender's share price came from a disclosure with its fourth-quarter earnings that an internal audit found "documentation issues and client misrepresentations" on some mortgages it had sold to a third-party company.

Since then, its stock has been underperforming the broader market, as investors remained on the sidelines, fearing that the problem could be bigger than what has been reported. The lender later repurchased $180 million of problematic mortgages it identified late last year, while increasing the total target for its buybacks to ~$392 million.

The estimated value of the mortgages that may be repurchased from the third-party purchaser constitutes approximately 1.6% of the bank's total residential mortgage portfolio and less than 1% of its total loan portfolio, the bank clarified in a statement in December.

Trading at $49.38 and with the trailing price-to-earnings ratio of nine, I think this dividend stock offers good value, especially now that its yield is crossing 5%. The bank has a quarterly payout of $0.63, which has increased with a compounded annual growth rate of about 6% during the past five years.

Equitable Group Inc.

Equitable Group seems to be the victim of speculations about the imminent collapse of the Canadian housing market by some short sellers, including Marc Cohodes, who, last year, said that Equitable Group "has no control" over its mortgage practices.

But the danger from the frothy natures of Toronto's and Vancouver's housing markets is receding since both federal and provincial governments have intervened to control the runaway prices. During the past 12 months, the imposition of tax on foreign buyers and tighter mortgage regulations have taken a lot of steam out from these red-hot housing markets.

When I look at the valuation metrics for the Equitable Group stock, it looks very attractive to me. The stock trades at a 5.88 price-to-earnings multiple and a 0.85 price-to-book multiple after a 23% plunge this year.

The company was able to successfully overcome the funding crisis, which hit Canada's non-bank lenders last spring by arranging a $2 billion line of funding from a consortium of top banks.

The cost of arranging new funding during those disruptions have reduced the shareholders' return on equity in 2017, but I think this was a temporary setback, and the bank will be back on its normal course going forward.

Trading at $55.20, Equitable Group stock has a lot of room to appreciate from here. Investors will also benefit from the lender's growing quarterly dividend. The lender pays a $0.26-a-share dividend, which is up 13% from the last year's payout.

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TICKERS GLOBAL

1. TSX:EQB (EQB)
2. TSX:LB (Laurentian Bank of Canada)

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