Opportunity Knocks! These 2 Canadian Dividend Aristocrats Are Trading at a Discount

Description

I love earnings season. Other than checking in on my holdings, there are plenty of short-term overreactions. To me, it's similar to people watching.

Traders, not investors, play the short game and you will often see significant price swings post-earnings. Some are warranted, but most aren't. The ones I am most interested in are the companies whose stocks were unfairly punished.

Why? It presents a buying opportunity.

This past week, two Canadian Dividend Aristocrats were hit hard: **Open Text Corp.** (TSX:OTEX)(NASDAQ:OTEX) and **Canadian Tire Corporation Limited** (TSX:CTC.A). Were the drops warranted, or is this a buying opportunity? Let's find out.

Missing analysts' expectations

Open Text missed analysts' expectations on both the top and bottom lines. The result was a 7% drop in price on the day of earnings. It has since recovered slightly, but its stock price still remains below where it was before earnings.

Outside of analysts' estimates, the company posted solid results. It posted double-digit growth across most of its revenue lines, and, stripping out the one-time tax benefit, earnings per share increased 20%.

More impressive, the company's operating cash flows (OCF) increased 71% year over year to $271 million. The company anticipates reaching $1 billion in OCF by 2021. That is a compound annual growth rate of 89%! Very few companies can match this type of cash flow growth.

Open Text is one of the newest Canadian Dividend Aristocrats, having just been added to the list last year. Along with earnings, it raised dividends by 15%, extending its dividend-growth streak to six years. Given the company's cash flow projections, expect double-digit dividend increases well into the next decade.

I know what skeptics might be thinking. Its price-to-earnings (P/E) ratio of 47.49 points to the company being overvalued.

Not so fast.

With a growth company like Open Text, I am more concerned with future earnings. Its forward P/E is 11.79, and its P/E-to-growth (PEG) ratio is 0.87. A PEG below one signifies that the company's share price is not keeping up with future growth. Thus, it is undervalued.

The company is cheap, and the future looks bright!

One-time impact deceives

At first glance, it appeared that Canadian Tire missed estimates by a wide margin. Don't be deceived.

Analysts expected the company to post EPS of $1.38, and the company posted EPS of $1.18 per share. It looks bad, right? It's a double-digit miss. Don't fret; Canadian Tire's EPS included a one-time accelerated depreciation expense of $0.19 per share.

Stripping out this one-time impact, the company only missed by $0.01, which is not as relevant. It's not enough to warrant a 6% drop in share price.

Canadian Tire posted solid results. It grew revenues by 8.8% and saw same-store growth of 5.2%. Despite this one-time blip in EPS, as mentioned above, the company expects to grow EPS by 10% through 2020.

As one of Canada's Dividend Aristocrats, the company has a dividend compound annual growth rate of 16.5% over the past five years. It has a targeted dividend-payout ratio between 30% and 40%. Canadian Tire's current payout ratio of 33% and expected double-digit EPS growth all but guarantee continued dividend growth.

Analysts are bullish on the company. Of the 13 analysts that cover the company, nine rate the company a buy, and they have a one-year average price target of $186.92. This implies 13% upside from today's price!

A thanks goes out to traders

Thanks to the traders and the subsequent market overreaction. We long-term investors now have solid entry points in two quality, dividend-growth, Canadian companies.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:OTEX (Open Text Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:OTEX (Open Text Corporation)

PARTNER-FEEDS

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