RRSP Investors: 2 Canadian Dividend Stocks That Look Cheap Today

Description

Canadian savers are searching for attractive stocks to add to their RRSP portfolios.

Let's take a look at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see why they might be interesting picks right now.

Bank of Nova Scotia

Investors often skip Bank of Nova Scotia when searching for a financial company to add to their holdings, but that might be a mistake.

Why?

The company has invested billions in the past decade to build a large international operation, with the main focus centred on Mexico, Peru, Chile, and Colombia. These countries form the core of the Pacific Alliance, which is a trade bloc set up to promote the free movement of goods and capital among the member states. The combined market is home to more than 220 million consumers.

As the middle class grows, demand for loans and investment products should increase, and Bank of Nova Scotia is positioning itself to benefit.

The company continues to make strategic acquisitions in the region, including the US$2.2 billion purchase of a majority stake in BBVA Chile. When the deal closes, Bank of Nova Scotia will double its market share in the country to about 14%. Bank of Nova Scotia also recently announced a $130 million deal to buy a 51% position in Banco Cencosud in Peru.

The international group already generates close to 30% of Bank of Nova Scotia's net income, and that could grow in the coming years.

Bank of Nova Scotia recently raised the quarterly dividend by $0.03 to $0.82 per share. At the time of writing, that's good for a yield of 4%.

The stock trades for less than 12 times trailing earnings, which is cheaper than the price investors are paying for the larger Canadian banks. A bit of a discount might be warranted due to the perceived risk connected to Latin America, but the Pacific Alliance countries are more stable than in the past, and the market might soon reward Bank of Nova Scotia with a higher multiple.

Enbridge

Enbridge trades for $40 per share right now. A year ago, the stock was $52.

What’s going on?

Rising interest rates have investors concerned that funds could flow out of go-to stocks, such as Enbridge, and into fixed-income alternatives. In addition, higher rates boost borrowing costs and could put a dent in cash flow available for payouts. Throw in the ongoing uncertainty surrounding major pipeline developments, and you get a situation where the market is not very keen on Enbridge.

The concerns are certainly valid, but the sell-off might be overdone.

Enbridge is undergoing a strategy shift to focus on its regulated businesses and has identified $10 billion in non-core assets it plans to monetize. In fact, the company already has agreements in place to sell assets worth more than $3 billion.

The funds are being used to reduce debt and fund ongoing development projects.

Enbridge is working through $22 billion in near-term projects. As the new assets go into service, cash flow should continue to improve.

The company raised the dividend by 10% for 2018, marking the 23rd straight year the company has increased the payout. At the time of writing, the stock provides a yield of 6.7%. Future dividend growth might not be at the same pace, but the existing payout should be very safe.

The bottom line

An equal investment in these two stocks would provide an average yield of more than 5%. In addition, RRSP investors get good exposure to Canada, the U.S., and Latin America.

If you have a buy-and-hold strategy, Bank of Nova Scotia and Enbridge should be attractive picks at their current prices.

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