2 Unreasonably Battered Dividend Stocks I'd Buy Before They Correct to the Upside

Description

With fears of higher interest rates in the air, Mr. Market has been incredibly pessimistic when it comes to defensive dividend stocks that have previously commanded a premium when rates were next to nothing. With the ridiculous amount of volatility experienced across broader market this year, Mr. Market has been acting irrationally when it comes to the pricing of stocks.

FOMO stocks are on display while other quality pieces of merchandise have been tossed into the bargain bin. Higher rates have made these stocks' above-average dividends less attractive to the average income investor, but I think the rotation out of such stocks is overblown, and presents an incredible opportunity for risk-averse contrarian investors who value a margin of safety above all else.

While an increasing interest rate environment may be a long-lasting headwind for many firms within the REIT, telecom, and utility industries, it's worth remembering that you're still receiving the perfect balance of stability and income that few alternative asset classes can match in today's environment. And given the discount to go with a higher-than-average yield, I think it's time for value-conscious income investors to pull a trigger on some of the most battered of Canadian defensive dividend stocks.

Here are two premium dividend stocks that appear oversold and undervalued, even with the headwind of a rising rate environment.

Fortis Inc. (TSX:FTS)(NYSE:FTS)

Whether you're a retiree, a doomsday investor, or a cautiously optimistic investor looking to construct an all-weather portfolio, Fortis is a blue-chip foundation stock that's worthy of a premium for its stability and above-average earnings (and dividend) growth potential.

In a rising rate environment, however, many investors have tossed the dividend aristocrat to the curb in spite of its highly-regulated and predictable cash flow generating operations.

I think it's a mistake to shun Fortis solely because of the industry. While it may be a challenge for management to offset the longer-term headwind of rising rates, I think a ~17% peak to trough plunge is

overdoing it!

Contrarians who step in today will be able to lock in a ~4.2% yield to go with the promise of ~6% in annual dividend hikes through 2022 (and likely beyond). High rates or not, Fortis is an absolute bargain at just 16 times forward earnings!

Canadian Utilities Ltd. ([TSX:CU](#))

Canadian Utilities is another stock that's taken a huge hit to the chin while the broader industry has been out of favour with the general public. Fortis may be a more premium name, but Canadian Utilities shares are trading at an even larger discount, currently down ~26% from its 52-week high.

The stock currently trades at a 14 forward P/E, a 1.8 P/B, and a 1.9 P/S, all of which are lower than the company's five-year historical average multiples of 20.2, 2.3, and 2.9, respectively. The dividend yield of 5.02% is also substantially higher than the five-year historical average yield of 3.3%, so those who value a higher upfront yield may wish to pick up shares of Canadian Utilities, which I think is close to a bottom and possesses an attractive margin of safety at current levels despite appearing to be a falling knife.

Bottom line

Both utility stocks have been hit way too hard and could be ripe for a correction to the upside as investors gradually shed their fear of higher interest rates and instead, become more understanding of the real underlying implications for rate-sensitive names.

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