2 Top Dividend Stocks Selling Cheap Equals Opportunity

Description

Rising interest rates in North America, tax reforms in the U.S. and the pipeline constraints continue to be the chief reasons why the share prices of some quality dividend stocks have been under pressure in 2018.

For long-term income investors, these temporary setbacks have opened up new opportunities to lock-in some attractive dividend yields in companies that are leaders in their industries with the muscles to sustain economic pressures.

BCE Inc. (TSX:BCE)(NYSE:BCE) and Enbridge Inc. (TSX:ENB)(NYSE:ENB) are the two such dividend stocks that fall into this category. Let's find out which is offering better value.

BCE

Rising bond yields this year have been the biggest factor, which took some steam out of Canada's largest telecom operator. Telecom utilities generally compete with fixed-income assets, such as bonds, for the investment money. When bond yields rise, investors jump the ship due to relative safety of government instruments.

BCE stock has fallen about 10% this year, despite the company's move to spend aggressively to expand and attract more customers.

For income investors, this pullback offers an opportunity to take the position in the company, which generates a lot of free cash to distribute in dividends. Since 2008, BCE's dividend has risen more than 100%, and the company is well on track to offer more hikes in the years to come.

Trading at $53.95 at the time of writing with an annual dividend yield of 5.5%, BCE's valuation looks compelling when compared to its telecom competitors. Its forward price-to-earnings multiple of 14.75 is the lowest among other top telecom operators in Canada.

Enbridge

The North America's largest pipeline operator, Enbridge, is also under pressure this year as rising interest rates, the change in the U.S. tax laws and the company's elevated debt levels raised concerns about the company's profitability and the future of its generous dividend payouts.

The biggest concern, which pushed its shares down 23% at one point this year, was the company's debt load that jumped after its takeover of Spectra Energy last year. Moody's rating agency cut Enbridge credit rating just above the junk level, citing more than $60 billion of debt as the main trigger.

To counter this challenge, Enbridge is working to sell some non-core assets. The plan may raise up to $10 billion, according to some news reports.

Despite this weakness, Enbridge's 6.5% dividend yield looks very tempting for long-term investors. As the asset sale plan accelerated, its shares are rebounding and have recovered almost half of the losses this year.

The bottom line

BCE and Enbridge are two top dividend stocks that are selling cheap. Income investors can benefit from their higher average dividend yields by taking long-term positions when they are on their road to recovery after this year's weakness.

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