Make Big Bucks With These 3 Bargain Dividend Stocks

Description

The best time to buy dividend stocks is when they are plagued by bad news or negative sentiment, because that's when they're priced at a discount compared to their normal multiples.

The following stocks have been pressured. However, they will benefit from higher interest rates. Investors can benefit from their discounted valuations by buying today for a bigger initial yield and above-average upside potential should the issues surrounding the companies resolve over time.

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Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock has declined meaningfully by almost 13% year to date. At $70.85 per share as of writing, it trades at a blended price-to-earnings ratio (P/E) of about 10.2, which is a discount of about 15% from its long-term normal P/E. In other words, the stock has roughly 18% upside potential.

The stock is dragged down by its operations in emerging markets, which has had poor performance recently partly from a stronger U.S. dollar against other currencies. Another reason that's pulling down the stock is potential dilutions from recent acquisitions.

Bank of Nova Scotia is out of favour, but it remains a very solid dividend-growth idea with increasing earnings and a sustainable payout ratio of under 50%. The weak stock price has made its dividend yield more delectable at 4.8%.

Manulife Financial (TSX:MFC)(NYSE:MFC) stock has corrected 19% year to date. At $21.15 per share as of writing, it trades at a blended P/E of about 8.2, which is a discount of about 30% from its long-term normal P/E. In other words, it has about 45% of upside potential.

The stock is pressured by a court case, which has increased the uncertainty of the stock. If the verdict ends up in Manulife's opponent's favour, Manulife will experience substantial losses. So, the market has been brutal to the stock.

Manulife is trading at post-recession valuation levels. For now, it offers a 4.16% yield with a conservative payout ratio of about 33%.

Laurentian Bank (TSX:LB) is an interesting idea for current income. The stock has declined about 26% year to date. The weak stock price of $41.92 per share as of writing has boosted its yield to 6.11%, which is the highest it has ever been.

Although its earnings are projected to decline this year and next year, its dividend should remain intact with a payout ratio of under 46% this year.

Investor takeaway

Consider buying these stocks now as they're cheap from historical valuations for juicy yields and above-average upside potential. In my opinion, of the three ideas, Bank of Nova Scotia is the most conservative stock, but the stock could fall further from current levels. So, it'd be more prudent to build a position over the course of six to 12 months.

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1. Bank Stocks
2. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:LB (Laurentian Bank of Canada)
5. TSX:MFC (Manulife Financial Corporation)

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