These 2 Dividend Stocks Are Undervalued and Strong Buys Today

Description

Whether you are nearing, in, or simply saving for retirement, you want to construct a portfolio of high-quality stocks. Retirement plans aren't the place for high-risk investments. Instead, investors should focus on safe and reliable stocks.

Two such stocks are **Power Financial** (TSX:PWF) and parent company **Power Corporation of Canada** (TSX:POW). Both companies have long and storied histories of rewarding investors. They have +20 years of uninterrupted dividend payments without dividend cuts.

This is important to point out, because during the financial crisis many insurance companies cut their dividends. Although Power Financial and Power Corp went through a period of dividend stagnation, they never announced a cut to their dividends.

What makes them attractive investments today? Let's take a look.

Huge buyback announced

Earlier this year, the companies and their subsidiaries announced an unprecedented buyback program. Power Financial is expected to buy back $1.65 billion worth of shares, while its subsidiary **Great-West Lifeco** announced a $2 billion buyback. For its part, Power Corp is expected to repurchase $1.35 billion worth of shares.

All share repurchases are not created equal, but I believe that the timing of the buyback is of great benefit to shareholders. This is not a case of buybacks being made to reduce the impact of issuing options or to offset declining growth to boost earnings per share.

This is a case whereby the companies return cash to shareholders because management believes their stock is undervalued. This is the best type of buyback for shareholders.

Top value stocks

Why are these stocks undervalued? Let’s start with Power Financial. The insurer is trading at a cheap 9.01 times forward earnings and at price-to-earnings (P/E) to growth (PEG) ratio of 0.89. A PEG under one signifies the company’s share price is not keeping up with expected growth rates.

Likewise, the company’s Graham number, made famous by the father of value investing Benjamin Graham, is $42.17. The Graham number is a means to calculate the fair value of the company’s stock price by taking into account Benjamin Graham’s investing principles. At today’s share price, this implies 35% upside.

Power Corporation offers similar upside. It has a forward P/E of 9.29 and its Graham number of $42.36 points to 37% upside from today’s share price.

A top dividend stock

As mentioned previously, both companies have long histories of returning cash to shareholders through dividends. After successfully navigating the financial crisis, the duo has returned to dividend growth. In fact, both companies are on the verge of rejoining the Canadian Dividend Aristocrat list. Aristocrats are companies that have histories of growing dividends for five or more consecutive years.

Combined with their hefty yields around 5%, Power Financial and Power Corp are attractive options for investors seeking income.

Foolish takeaway

Power Financial and Power Corp are returning cash to shareholders in a big way. As of writing, they offer great value and high yields. As such, both companies are excellent choices for your RRSP portfolios.

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