This Cheap Dividend Stock Can Fill Your TFSA With Growing Income

Description

Canadian financials are in a rut.

There's no way around that and although the recent selling activity has many investors feeling like it's time to pursue dividends in other sectors, I'd urge investors to consider some of the more beaten-up names in the space.

With lowered growth expectations and rate hikes on pause, the banks and insurers have pulled back considerably — some more than others. Just because the macro environment isn't nearly as attractive as it was a year ago doesn't mean we're headed into a recession, although I'm sure you've heard that we're long overdue for a big one. So, with most folks already thinking a recession is imminent, it's time to have a look at what's available in the ugly financial sector as prices continue to be slashed.

Industrial Alliance (TSX:IAG) is one financial stock that stands out as a screaming bargain. The diversified financial firm has a solid core life and health insurance business and a quickly growing wealth management business.

At the time of writing, the stock trades at a 8.3 forward P/E, a 1.0 P/B, and a 0.5 P/S, all of which are lower than the five-year historical average multiples of 11.2, 1.3, and 0.6, respectively. Despite being in bear market territory for most of the year, shares only have a modest 3.36% dividend yield, well lower than most other financials that sport yields in the 4-6% range.

While the lower yield is a turn-off for the income-oriented, investors shouldn't discount the company's dividend-growth potential. With a 28.4% payout ratio and an 18.7% cash payout ratio, IA has a tonne of room to give investors a big, fat raise, even as earnings slow with the harsher macro environment on the horizon.

The ample financial wiggle room also will allow the company to survive and recover come the next big recession, and with solid risk controls in place, it's not a mystery as to why IA has been much quicker than its peers to hit levels reached prior to the Financial Crisis.

Foolish takeaway

IA is ridiculously cheap with its single-digit P/E and with one of the healthiest dividends out there. I think investors are already pricing in a recession at this juncture, and as the financial stock sell-off continues in the coming weeks, I'd look to IA stock as a potential bounce-back play that'll allow you to lock in a temporarily elevated yield. I'd nibble on the stock here and leave room to buy more should shares return to 52-week lows.

Stay hungry. Stay Foolish.

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