Passive Income Meets Value: Get Paid a 4.3% Dividend Yield to Wait for an Upside Correction

Description

If you don't consider yourself a trader who aims to make quick profits by jumping in and out of the stock markets ad nauseam, then consider taking a deep-value, dividend approach to investing.

First, what the heck is deep-value, dividend investing? And why may it be the right strategy for you?

Deep-value, dividend investing entails buying dividend stocks that trade at significant discounts to their intrinsic value. Such steep discounts imply severe undervaluation and a large margin of safety and thus warrant a correction to the upside.

As you may know, plain vanilla, deep-value investing is all about spotting the biggest bargains, with little to no regard for the magnitude or safety of the company's dividend. When you consider the sustainability and future growth potential of a firm's dividend, however, you could have more than just a deep-value stock on your hands. You could have a name with a safe, growing dividend and a means for substantial stock price appreciation over time.

Nobody knows when a deep-value name will correct upwards, and that's where dividend, deep-value investing shines. You're going to be paid a growing dividend regardless of what ends up happening at the industry level. And although you could be without capital gains for a prolonged period, if you consider yourself an income investor, you'll be more than content to hang on to your shares over a more extended time frame, as the company behind the discounted shares does everything in its power to get back on track.

Consider **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), a Canadian energy play that's considered by many as one of the best (and safest) ways to play Alberta's ailing oil patch. Management has been doing everything in its power to ensure investors are "insulated" from the violent swings in the price of Canadian crude.

Given the incredibly shareholder-friendly nature of the managers, the firm's favourable cost structure, the healthy balance sheet, and the ample amounts of free cash flow that flows in during good times and bad, the dividend is one of the strongest (and “growthiest”) in its industry.

At the time of writing, you’re getting a 4.3% yield with CNQ just to sit around and wait for Albertan oil patch to get back on the road to recovery. Following the purchase of $3.8 billion in assets from Devon Canada, Canadian Natural looks to have become the newly crowned king of the Canadian oil patch.

While there are a tonne of oil sands projects whose taps won’t be turned on until oil prices move sustainably higher, I like the dividend and the ridiculously low price of admission. Should WCS prices find a way to narrow the gap over the next five years, you’ll be sitting on considerable gains to go with the above-average dividend that you’ll effectively lock in today.

In any case, Canadian Natural has a severely undervalued stock (11 times next year’s expected earnings and an 6.65 EV/EBITDA) with a solid dividend and is a perfect candidate for those looking for a large upfront yield, ample dividend growth over time, and the potential for long-term capital gains.

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