Passive Income + Value: 2 Contrarian Dividend Stocks to Buy on the Dip

Description

It pays big dividends to buy undervalued dividends stocks on the dip.

You don't just get a chance to ride an upside correction after the market realizes the downturn was exaggerated, but you also get to "lock-in" a higher-than-average dividend yield that'll likely normalize once excessive pessimism subsides.

This piece will have a look at two dipped dividend stocks that I think are severely undervalued and are ripe for picking.

NFI Group

NFI Group (TSX:NFI) is a bus maker whose stock had lost its wheels, with shares of the name plunging over 57% from peak to trough over the course of the past year and a half. Ouch!

The company behind the New Flyer coach buses pre-reported meagre delivery, new order, and backlog numbers around a month before it officially released its second-quarter results, which missed the mark on the bottom line, causing a majority of the damage to happen before management had a chance to explain itself during the Q2 reveal.

Management expects deliveries to pick up in the latter half of the year, but given the operating hiccups, a sluggish economic outlook (which doesn't bode well for suppliers of long-lived assets), and down-trending consolidated margins, I'd say the markets aren't too optimistic about meaningful improvements in H2 2019. I think investors can expect to wait for next year before real improvements can be made, but by then, the stock's price of admission would likely have gone up.

While NFI may have another few quarters of pain, I think it makes sense to lock in the 6% yield while the stock trades at just 0.5 times sales. It's also encouraging that management has been scooping up their own shares of late.

Cascades

Cascades (TSX:CAS) stock has been in a world of pain for over two years now and is currently down 36% after posting a partial rebound in the second quarter.

For those unfamiliar with the name, it's a producer of packaging, tissue, and toilet paper, mainly from recycled fibres. The company recently reported Q2 numbers that missed on the bottom line but saw record second-quarter sales numbers of $1.275 billion, up 8% year over year, thanks in part to higher average selling prices and continued robust demand for its paper products, which are much-needed necessities.

As the economy continues to tread water, with lingering fears of a recession, Cascades is the ultimate defensive dividend bet. Canadians will continue to buy Cascades tissue products, even if they endure tough times. Cascades is an easy-to-understand business with a steady 3% dividend yield at the time of writing.

The company recently doubled its quarterly dividend to $0.08 per share and is now a compelling play for income investors seeking value.

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joefrenette