



3 Dividend Stocks That Are on Sale for Massive 2020 Upside!

Description

Following Black Friday and Cyber Monday, it's exhilarating to find [big sales](#) still available in the stock market. Here are three dividend stocks across three sectors that you should take serious consideration immediately. They could be the dark horses for outsized returns in 2020 and beyond.

Scotiabank

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) has underperformed the Big Six Canadian banks over the last five and 10 years. However, that's about to change. BNS stock is cheap, and the bank is about to reignite growth.

Although still a very international bank with operations in more than 30 countries, Scotiabank has deliberately made efforts over the last six years to refocus on six core markets, Canada, the United States, and the higher-growth Pacific Alliance markets of Mexico, Peru, Chile, and Colombia. Together, they contribute about 87% of the bank's earnings with Canada contributing the bulk of the profitability — about 55% of total earnings.

On top of building scale in the four higher-growth markets, Scotiabank simultaneously improved its credit risk profile and the quality of the bank.

The market currently prices Scotiabank stock at a depressed price-to-earnings ratio (P/E) of about 10.5 due to slow growth for fiscal 2019.

Shareholders can rest assured that Scotiabank's earnings and share price will improve as it integrates its acquisitions. Long-term returns of 10-12% per year are not far-fetched. In the meantime, collect a nice yield of 4.8% from the stock.

Canadian Tire

It's hard to believe that **Canadian Tire** ([TSX:CTC.A](#)) has existed for almost a century in Canada.

Amazingly, the retailer, with its expanded umbrella of iconic brands, is still experiencing growth after all these years. Year to date, the retailer's comparable sales were up 3.4%.

The fact that Canadian Tire plans to maintain a payout ratio of 30-40% of normalized earnings suggests that it has better uses for its retained earnings, such as reinvesting into the business or buying back stock.

In the last year or so, the retailer bought back \$316.5 million of its shares, which was a good thing, as the stock was undervalued during that period. Moreover, it plans to buy back another \$350 million shares by the end of 2020.

At about \$155 per share as of writing, it trades at a P/E of 12.1 for an estimated growth rate of about 9% over the next few years from sales growth, share buybacks, and potential acquisitions.

Investors can start off with a safe yield of 2.9% today in the Dividend Aristocrat. Although the stock is already on the course of recovery from the bottom, it remains a bargain. It's reasonable to expect long-term returns of 11-14% per year.

ARC Resources

ARC Resources ([TSX:ARX](#)) is the riskiest out of the three picks, as shown by its alarming 9% yield! However, it can also [generate the greatest returns in the shortest time](#) — if only commodity prices, especially for gas, improve.

Operating in a cyclical industry, ARC Resources is cautious to keep its payout ratio low. But in the case of a big reduction in cash flow generation, such as from low commodity prices, for an extended time, it will be forced to cut its dividend in order to sustain and grow the business long term while keeping its balance sheet strong.

Currently, the company pays a monthly dividend of \$0.05 per share or an annualized payout of \$0.60 per share. Year to date, its payout ratio was about 30%.

Last month, ARC Resources forecasted that it will generate cash flow that's sufficient to fund the monthly dividend for next year as well as sustain and grow the business with \$500 million of capital investment.

ARC Resource is a contrarian idea. Most stock investors have abandoned the oil and producers. As a result, the stock currently trades at only about 3.3 times cash flow with the analyst average 12-month price target suggesting 43% upside.

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:ARX (ARC Resources Ltd.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CTC.A (Canadian Tire Corporation, Limited)

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