Value Investors: 2 Dirt-Cheap Dividend Stocks to Buy Before 2020

Description

To use a real estate saying, it is a sellers' market, and buyers are finding themselves paying hefty valuations, as the TSX Index continues to hit new highs almost daily. Year to date, the S&P/TSX Composite Index is up a whopping 18.97% and is on pace for its best year since 2009 when it rebounded from the financial crisis.

This is great news for those currently invested in the markets and growth investors whose portfolios are no doubt sitting on nice gains. However, value investors are finding it hard to deploy their cash. The good news is that regardless of how frothy the market gets, there is always value to be found. With that in mind, here are two stocks that are trading at cheap valuations and should outperform in 2020.

Equitable Bank

How can a stock that has gained 82% in 2019 still be considered cheap? **Equitable Bank** (TSX:EQB) has been a star in 2019, and despite its run-up, it still has plenty of room to run. It is important to realize that the entire sector was chronically undervalued. Equitable was trading at ridiculously cheap valuations for the better part of 2018, and the gains in 2019 are reflective of strong macro trends.

It is still, however, trading at a cheap 10 times earnings and only 8.27 times forward earnings. This is well below the industry average of 11.8 times earnings and 10.8 times next year's earnings. It also has a tiny P/E-to-growth (PEG) ratio of 0.38, which is one of the lowest PEG ratios on the Index.

The company's stock price is clearly not keeping up with expected growth rates of 25% annually. Analysts have a one-year price target of $131.29 per share, which implies 18% upside from today's price of $110.88 per share. Even the lowest price on the street ($128) is well above today's price.

Equitable is also one of the leading dividend-growth companies in Canada. It is a Canadian Dividend Aristocrat and has grown the dividend by mid-teens over the course of its eight-year dividend-growth streak.

Cascades

Next up, we have a leading green energy company. **Cascades** (TSX:CAS) is the perfect stock for those interested in socially responsible investing. It uses significantly less energy and water that its manufacturing peers, and over 80% of its products are made from recycled products.

The company is trading at a cheap 11.96 times forward earnings, and much like Equitable Group, it has an ultra-low PEG ratio (0.37). Analysts expect the company to grow earnings by an average of 37% annually over the next five years, and as such, the market is significantly discounting its growth potential. Finally, Cascades is also trading at only 0.74 times book value, which is well below its five-year historical average of one times book value.

Similar to Equitable, Cascades is trading at a discount (14%) to analysts average one-year target and is trading below the lowest price on the street ($13.25 per share).

Cascades does not have an impressive dividend-growth streak, but that could change very quickly. It has paid out an uninterrupted dividend for years, and this past August, Cascades doubled the quarterly dividend to $0.08 per share. This more than makes up for years of dividend stagnation. Considering Cascades expected growth rates, it may also mark the start of an impressive dividend-growth streak. The dividend is well covered, and it has plenty of room to grow moving forward.

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