Income Investors: Buy These Dividend Stocks on Holiday Sale!

Description

While you're doing Christmas shopping, don't forget to shop for yourself! Here are two quality dividend stocks on sale right now. Buy and hold them to receive growing dividends for many holidays to come!

Bank of Montreal

Believe it or not, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) has been around for more than 200 years! It has grown to be the eighth-largest North American bank by asset and is a top 10 commercial lender in the United States.

The recent backdrop suggests a more challenging operating environment with low interest rates and trade tensions. Therefore, the near-term growth of banks, including BMO, is expected to slow.

For fiscal 2019, BMO reported adjusted net income growth of 4% to $6.2 billion, which translated to earnings per share of $9.43, up 5% year over year. It also reported adjusted return on equity of 13.7% against fiscal 2018's 14.6%.

At about $100 per share, investors can buy the stock at a discount of roughly 10% from its normal multiple with a yield of 4.2%. The safe dividend is supported by a payout ratio of about 45%.

Management remains confident in its medium-term growth of 7-10% per year in earnings per share and return on equity of more than 15%. When this happens, BMO stock will be trading at much higher levels.

Based on only a 5.5% growth rate and a normal price-to-earnings ratio of 11.5, the stock can deliver total returns of 10-12% per year over the next three to five years.

Pembina Pipeline

As a transporter of oil and gas and a provider of midstream services, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA

) has served the North American energy sector for more than 60 years.

Pembina’s largely contracted cash flows have been very stable — even through the last oil price crash in 2014. The cash flow it generates is able to simultaneously support the dividend and fund $1-$2 billion of organic growth every year.

Therefore, it doesn’t necessarily have to seek capital from the equity market and will limit the dilution of shareholders (if any). Like many other energy infrastructure companies, it also grows partly via debt. Notably, it has a below-average leverage ratio compared to its peer group.

Pembina’s track record of dividend payments also indicates the business is very well managed. It has paid safe monthly cash distributions since 1997. As of writing, Pembina’s monthly dividend is good for a yield of 5.15%.

Interestingly, the stock is quite undervalued today. The 12-month average analyst price target implies 20% near-term upside potential.

Investor takeaway

Dividends contribute to about a third of long-term returns. So, buy quality dividend stocks like Bank of Montreal and Pembina Pipeline during this holiday sale.

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