3 Dividend Stocks That Are Absurdly Cheap Right Now

Description

Investing in a basket of ridiculously undervalued dividend stocks should eventually lead to one result: extraordinary total returns.

You'll get income along the way from dividends while you wait for the stock price to appreciate. For some dividend stocks, you might not ever want to sell them. Why would you when they continue paying you more income over time?

Scotiabank

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is the kind of dividend stock that you can hold onto forever.

The big Canadian bank has paid dividends since 1833. Imagine that! Scotiabank has paid dividend income to its shareholders through the Great Recession in the 1930s, World War II, the internet bubble burst, and the last financial crisis in 2007/08.

There will certainly be more macro hardships in the future, but BNS stock has demonstrated its ability to navigate through them.

Its operations are highly profitable in Canada, and it's growing its scale in the higher-growth Pacific Alliance countries. Interestingly, the BNS stock price is wonderfully cheap for buyers today. At about $74 per share at writing, it trades at an absurdly low valuation of about 10.3 times earnings.

It is your opportunity to buy the stock to collect a yield of close to 5% for perpetuity. Actually, that's not going to last long, because the bank is going to increase its dividend over time. Therefore, your yield on cost will only grow from here.

Birchcliff Energy

If you think BNS stock is cheap, you'll find **Birchcliff Energy** (TSX:BIR) to be incredibly cheap. The resource stock trades at only 1.5 times cash flow.

It's important to point out that Birchcliff is an entirely different type of investment than Scotiabank. It's much riskier due to its dependence on commodity prices like natural gas — its main resource of production.

Currently, the energy stock offers a whopping yield of 6%. That's nice on its own, but the real cake is the upside potential that it can bring as a three- to five-year investment.

Because of its insanely low valuation and track record of low-cost production that allowed it to come out with profitable production over the last five years, the average analyst price target (across 17 analysts) is actually more than double, and specifically 138% higher from the current price of $1.75 per share.

It may be too optimistic to call for that kind of upside within the next 12 months. However, over a full cycle, the stock should be able to trade at $4-6 to double or triple one's money.

Patience is key. Buyers should manage the size of their positions in Birchcliff accordingly due to its greater risk.

TORC Oil and Gas

Since we're on the topic of absurdly cheap dividend stocks and a natural gas stock was discussed, it makes perfect sense to discuss an oil stock as well.

Similar to Birchcliff whose profitability is greatly tied to natural gas prices, **TORC Oil and Gas** (TSX:TOG) has profitability that's greatly tied to oil prices. About 88% of its production is oil and liquids.

At writing, the energy stock trades at 2.8 times cash flow and offers a high yield of 7.4%. That's awesome to collect on a monthly basis, but the real deal is the upside potential that's possible.

The average analyst price target (across 17 analysts) is actually 50% higher from the current price of about $4 per share.

What's important to note is that management's top priority on TORC is its balance sheet and asset quality. This gives it the financial flexibility to create value through the cycle but also means that the dividend could be at risk at one point, though that doesn't appear to be the case at the moment.

The backing of the Canada Pension Plan Investment Board is also reassuring. Specifically, it has a strikingly large stake of 29% in the high-yield energy stock.

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BIR (Birchcliff Energy Ltd.)
3. TSX:BNS (Bank Of Nova Scotia)

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Date
2025/07/03
Date Created
2020/02/07
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