2 TSX Dividend Stocks Are Absurdly Cheap

Description

Many investors buy dividend stocks to enjoy growing passive income. Thanks to this abnormal market, you can buy popular **TSX** dividend stocks — **Manulife** (TSX:MFC)(NYSE:MFC) stock and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) for a fraction of their February stock prices.

Manulife stock is absurdly cheap

Manulife stock is a TSX dividend stock favourite. However, the insurance stock's selloff of close to 50% with the broader market has gone overboard.

At $13.58 per share at writing, Manulife stock trades at a price-to-earnings ratio (P/E) of about 4.5. That's absurdly cheap!

Investors should note that since 2013, the stock has normally traded at a P/E of about 12. This implies it currently trades at a massive discount of more than 60%!

Assuming Manulife stock recovers to 12 times earnings (about $42.60 per share) three years later in a normal market, an investment today would be more than a three-bagger based on price appreciation alone! Specifically, it'd be an upside of 213%!

A more bearish case leads to a P/E of 10 (about $35.50 per share). An investment today would be more than a two-bagger based only on price gains. Specifically, it'd be an upside of 161%.

Manulife stock's dividend

MFC stock fairly recently hiked its quarterly dividend to $0.28 per share. This equates to an annualized payout of $1.12 per share.

Investors may worry about Manulife potentially cutting its dividend like it did in the last recession. However, its earnings should be more stable this time around because it isn't a financial crisis.

Moreover, the stock's payout ratio has a big buffer, as it is expected to be less than 38% this year.

Due to its cheap stock price, Manulife offers a ridiculously high yield of 8.2%.

Is Pembina Pipeline stock no longer safe?

Pembina Pipeline is a TSX dividend stock that has paid a safe and growing dividend since at least 2002. Additionally, it had delivered consistent long-term total returns of about 12% per year. So, it really threw investors off when the stock tanked as much as 70% in this extraordinary market.

Why Pembina stock tanked

Many energy companies, particularly oil and gas producers, are pending bankruptcy if commodity prices remain this low for an extended time. It just isn't economical to be producing oil and gas at absurdly low prices.

If there's no oil and gas to be transported or stored, energy infrastructure stocks will be sitting there doing nothing!

Pembina's cash flow is somewhat protected

That said, about 85% of Pembina's adjusted EBITDA is protected by long-term contracts, including roughly 62% by take-or-pay or cost-of-service contracts and approximately 23% by fee-for-service contracts.

Its take-or-pay cash flow has neither commodity price nor volume risk, while its cost-of-service cash flow may have volume risks but no commodity price risk. Fee-for-service cash flow have volume risk but no commodity price risk.

So, Pembina's cash flows are somewhat protected by these long-term contracts for the near to medium term (unless its clients go bankrupt). Notably, about 79% of Pembina's more than 200 clients have been rated as investment grade by at least one credit rating agency.

Pembina Pipeline stock is absurdly cheap

Pembina stock got so cheap that it went on a super rally of 23% yesterday after it announced a big capital spending cut of 45% (about $1 billion) from its previously announced program. Even so, at $20.36 per share, it still trades at a massive discount from its fair value.

Moreover, its yield is ridiculously high at 12.4% after the rally. The stock can potentially double over the next few years while paying juicy income.

However, this is based on the assumption that crazy-low WTI oil prices of less than US$30 per barrel won't last too long.

If you're unsure about Manulife or Pembina, consider more TSX dividend stocks before making your investment decisions.

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