TFSA Investors: 2 Crazy-Cheap Dividend Stocks I'd Buy With an Extra $2,000

Description

If you missed out on the 25% bounce in the TSX Index, you shouldn't fret, as there are still ample opportunities out there that could result in amplified upside for TFSA investors as the markets recover.

The coronavirus pandemic is an unprecedented black swan event that's wreaked havoc on the global economy. Indeed, unprecedented times have called for unprecedented actions with a profound amount of fiscal and monetary stimulus that aims to avert a potential economic depression.

This piece will have a look at two ridiculously cheap Canadian stocks that have favourable risk/reward trade-offs, as the world looks to heal from the insidious coronavirus. Without further ado, consider the following beaten-up Canadian financials to earn outsized yields for an undersized price.

iA Financial

The Canadian insurance plays have been completely battered amid the coronavirus sell-off. **iA Financial** (TSX:IAG) is a diversified insurance company whose stock has taken on a brunt of the damage, plunging a staggering 59% from peak to trough.

Despite the massive magnitude of the decline, the dividend yield isn't all too large at 4.4%, and that's because iA has historically kept its payout substantially lower than its peers. It values financial flexibility given the somewhat fickle and cyclical nature of the industry it operates in.

Sure, TFSA investors can score larger yields in other areas of the market, but by going with a well-capitalized firm like iA, you can at least sleep comfortably at night, knowing the dividend is unlikely to be taken away from you. Dividend hikes are likely on pause for now, as the company deals with the immense headwinds that lie ahead of it.

The rock-bottom interest rate environment doesn't bode well for the Canadian financials, but it's worth noting that iA has taken the appropriate steps to reduce its interest rate sensitivity. The real sore spot with iA's subprime auto loan book that could lead to substantial impairments over the coming quarters, as layoffs continue soaring to unprecedented heights.

The potential for surging soured auto loans warrant a lower multiple, but at 0.5 times book, I'd say the stock has overextended to the downside and represents substantial value for long-term, income-oriented TFSA investors.

Bank of Montreal: A top bank for TFSA investors

When the Canadian economy grinds to a halt, everything falls back to the Canadian banks. TFSA investors are quick to ditch their stocks as macro pressures mount. The big banks crashed hard during the Financial Crisis, and they took on amplified damage in the coronavirus crash.

Despite the cyclical nature of the banks, they're a staple in any long-term TFSA investor's portfolio. They're among the bluest of blue chips, and their dividends stand to grow, regardless of the pressures facing them. Whenever you have a chance to buy a Canadian bank stock on a massive dip, you not only can lock in an outsized dividend yield, but you'll likely be able to enjoy amplified capital gains come the next phase of the economic cycle.

Bank of Montreal (TSX:BMO)(NYSE:BMO) and its peers have been put to the test before. Unlike the Financial Crisis, they're far better capitalized this time around. That leads me to believe that they'll come out of the gate roaring once the next bull market is born.

With the recent collapse of oil prices, the dire fate of many junior oil sands producers seems to be sealed. And that's a huge reason why BMO, which has a great deal of loan exposure to the oil and gas industry, has taken a brunt of the damage amid the 2020 market crash.

While BMO may be exposed to one of the sorest spots of the market, TFSA investors need to realize that BMO is more than capable of riding out the downturn. With the latest OPEC deal to cut oil supply by 10%, we could witness a slow and steady recovery in the oil patch. The magnitude of soured loans may turn out to be not as bad as many were expecting when OPEC+ crumbled just a few months ago.

In any case, BMO shouldn't be treated as an energy stock; it's a well-capitalized firm with a lot going for it in other segments, including wealth management. I'd bag the stock while it sports an outsized 6% yield today before the name has a chance to recover from an exaggerated sell-off.

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2. TSX:BMO (Bank Of Montreal)

3. TSX:IAG (iA Financial Corporation Inc.)

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