3 Undervalued Dividend Stocks to Buy for Long-Term Gains

Description

Stock prices have been unpredictable in 2020 due to COVID-19. While the broader markets have staged a comeback after entering bear market territory earlier this year, several stocks across sectors still trade at a discount. We'll look at three large-cap Canadian stocks that trade at cheap multiples, making them attractive to value investors.

An undervalued energy giant

When it comes to investing in dividend stocks, it is difficult to ignore **Enbridge** (TSX:ENB)(NYSE:ENB). The sell-off in the energy space has driven Enbridge stock to $40.2, indicating a forward yield of 8.1%.

The Canadian infrastructure giant has lost over 20% in 2020. However, despite volatile crude oil prices and tepid demand, Enbridge is on track to achieve its full-year forecasts. Enbridge has a resilient contract-based business model, making it immune to commodity prices.

Despite a high yield, the company's payout ratio is less than 70%, giving it enough room to increase dividends once the market stabilizes. Enbridge currently has allocated $11 billion for expansion projects that include new oil and gas pipelines.

The company expects the expansions to increase cash flows at an annual rate of between 5% and 7% through 2022. The company has increased its dividends at an annual rate of 11% since 1995, making it one of the top income stocks on the **TSX**.

A banking behemoth

Shares of **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) are trading at $55.15, which is 28% below its 52-week high. The high unemployment rates in Canada amid the pandemic have made investors wary, as there is a risk of rising defaults.

In order to boost spending, the federal banks have lowered interest rates, which will also impact the bottom lines of banking companies. However, the sell-off provides an opportunity for Canadians to buy a blue-chip company at an attractive multiple.

BNS stock is trading at a forward price-to-earnings multiple of 3.3 and a price-to-book multiple of 1.06. The banking Goliath also has a tasty yield of 6.5% and given its payout ratio of 70%, a dividend cut is unlikely.

In the last 20 years, BNS has increased dividends at an annual rate of 8%.

A utility heavyweight

The third stock on the list is **Canadian Utilities** (TSX:CU). Shares of this utility company are trading at $31.7, which is 26% below its 52-week high. This indicates a forward yield of 5.5%. Utility companies are some of the safest bets during an economic slowdown, and holding domestic heavyweights such as CU will recession-proof your portfolio.

Canadian Utilities has increased its dividends for 48 consecutive years due to its strong balance sheet and a steady stream of cash flows. The company has over $20 billion in assets, and its rate-regulated business ensures cash flows will remain constant and predictable.

Canadian Utilities generates 95% of sales from its regulated business and the rest from long-term contracts. CU has survived multiple slowdowns and is trading at a price-to-book multiple of 1.7.

The Foolish takeaway

The three companies discussed here have been around for several decades. They have a huge market presence and the potential to create massive long-term wealth. If you invest $10,000 in each of these three stocks, you can generate over $2,000 in annual dividend payments.

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1. Dividend Stocks
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2. NYSE:ENB (Enbridge Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CU (Canadian Utilities Limited)
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