Cheap Dividends: 2 TSX Financial Stocks That Are Beyond Undervalued

Description

Here we go again. The broader markets are pulling back again. With significant negative momentum heading into flu season that could overlap with a second outbreak of COVID-19 cases, there are many reasons to believe that we could be headed for another vicious move into bear market territory.

While the technicals aren't the best heading out of what's been a rough September, I would encourage investors to continue swinging at the good pitches that Mr. Market will continue serving up through the ups and downs.

This piece will have a closer look at two Canadian financial (bank and insurance) stocks that I think look beyond undervalued. While the financials are among the hardest of hit sectors amid this crisis, now is as good a time as any for longer-term thinkers to take advantage of the bargains while they still exist. Make sure you've got a strong stomach for volatility, though, because the financials remain at ground zero of this crisis.

Canadian Western Bank: A battered bank, a cheap dividend

Canadian Western Bank (TSX:CWB) took far too big a hit to the chin back in the first half. Even before the 2020 market crash, shares of the ailing Edmonton-based bank were already under pressure thanks to the weak western Canadian economy (mostly Alberta) and a modest downturn in Canadian credit.

Fast forward to today, and CWB stock has mostly recovered ground lost back in the February-March sell-off, but remain a country mile away from posting a full recovery. Shares are around 35% below their all-time highs, making the regional Canadian bank one of the cheaper ways to play a rebounding of both the Canadian economy and the extremely distressed Albertan oil patch. Energy and financials are severely oversold, and as their sectors begin to find relief, CWB stock, I believe, could continue exhibiting momentum through a second wave.

Shares trade at 9.35 times next year's expected earnings, and 0.84 times book value. The 4.4% yield isn't as bountiful as those of the Big Six, but in terms of upside, I'd say it'll be tough to edge out

Canadian Western, given the low bar and the profound value to be had in shares.

IA Financial: A modest dividend yield at dirt-cheap valuations

Shares of battered financial **IA Financial** (TSX:IAG) are severely oversold this year. Like Canadian Western Bank, IA Financial sports a lower dividend yield at 4.3% versus the likes of some of its peers that currently command yields well north of the 6% mark. However, like CWB, IA Financial makes up for its lack of yield in the form of greater upside potential in the event of a correction to the upside.

Moreover, IA Financial tends to err on the side of caution. Insurance can be a fickle business at times and although such products should be "musts," and not "wants." I do think they belong in the latter category amid this unprecedented crisis that could bring force some serious belt-tightening that will put insurance products at the top of the list of expenses to trim.

In any case, IA Financial is a well-run insurer with a growing wealth management business (IA Clarington Investments) that could give other non-bank wealth managers a good run for their money. The stock trades at a mere 6.9 times next year's expected earnings and 0.85 times book value, both of which are considerably lower than IAG stock's five-year historical average multiples of 10.5 and 1.2, respectively.

Foolish takeaway

Both CWB and IA don't boast the largest yields. However, they're well-covered by cash flows and are likely to grow at an above-average rate once we're out of this pandemic. Best of all, the low cost of admission into each stock allows value-conscious income investors to get their quality dividends for cheap.

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TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:IAG (iA Financial Corporation Inc.)

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