Stocks at Up to a 50% Discount: Where to Invest $1,000 Right Now!

Description

Stock investors can make money from dividends and stock price appreciation. Right now, these two value stocks offer both!

Attractive valuations

Since 2013, **Manulife** (TSX:MFC)(NYSE:MFC) stock has normally traded at about 12 times earnings — a valuation that's been further depressed in the last couple of years to roughly 9.3 times.

At writing, at $18.88 per share, the dividend stock trades at just 6.3 times earnings. This is a discount of 32% from the 9.3 times level. It also trades at a price to book of about 0.8 times, which is lower from 1.1 times a year ago. This also suggests a discount of approximately 30%. In other words, upside potential of close to 50% is possible over the next few years.

Another attractive stock is **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). Since 2014, it has normally traded at about 13.5 times its cash flow. This valuation has been pushed down to about 10.9 times in the last few years.

At writing, at $29.24 per share, the dividend stock trades at about 5.8 times its cash flow — a discount of nearly 50% from the 10.9 times level. In other words, upside potential of about 88% is possible over the next few years!

Appetizing dividends

Thanks to their compelling valuations, Manulife and Pembina stocks currently offer appetizing yields of 5.9% and 8.6%, respectively. Both companies are Canadian Dividend Aristocrats with a track record of dividend increases!

Manulife's dividend has climbed six consecutive years. Its five-year dividend growth rate is nearly 12%. Despite estimated lower earnings this year, its dividend is still well protected by a payout ratio of about

42%. Its quarterly dividend is 12% higher compared to the same period a year ago.

Pembina has increased its dividend for eight consecutive years with a five-year dividend growth rate of 6.5%. Its monthly dividend is 5% greater than it was a year ago. Its dividend is sustained with an estimated payout ratio of about 75% of its fee-based distributable cash flow (DCF). (It aims for a DCF payout ratio of less than 100%.)

A quick overview of the businesses

Manulife is an insurance company that provides financial protection, wealth and asset management products, and services to individuals and groups, with operations primarily in Canada, the U.S., and Asia. In the first half of the year, it generated core earnings of nearly $2.6 billion with a core return on equity of 10.2%.

Pembina is a large-cap energy infrastructure business with a market cap of $16 billion and enterprise value of $27.6 billion. It has diversified commodity exposure across crude and condensate (40% of its business), natural gas liquids (30%), and gas (30%). It also earns about 20% of its profitability from the United States for added diversification.

This year, the company is navigating the decline in global energy prices by reducing its capital spending by roughly $1 billion (or a reduction of 45% from previously planned).

It's also looking to sell $200-500 million of non-core assets to further boost its liquidity, which was recently at $2.8 billion. In response to COVID-19, it also managed to improve its operating efficiency and is saving annual costs of $100 million. Pembina will have no problem keeping its investment-grade credit rating of BBB.

The Foolish takeaway

By buying massively discounted dividend stocks like Manulife and Pembina that trade at 30-50% discounts, investors can earn generous passive income while waiting for lucrative price gains.

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