2 Cheap Dividend Stocks Yielding up to 5.3%

Description

The stock market recovered from the pandemic market crash sooner than investors thought it would. With the stock market at its all-time high, it's become more difficult to find bargain dividend stocks.

You can check out these dividend stocks that are still relatively cheap for decent passive income.

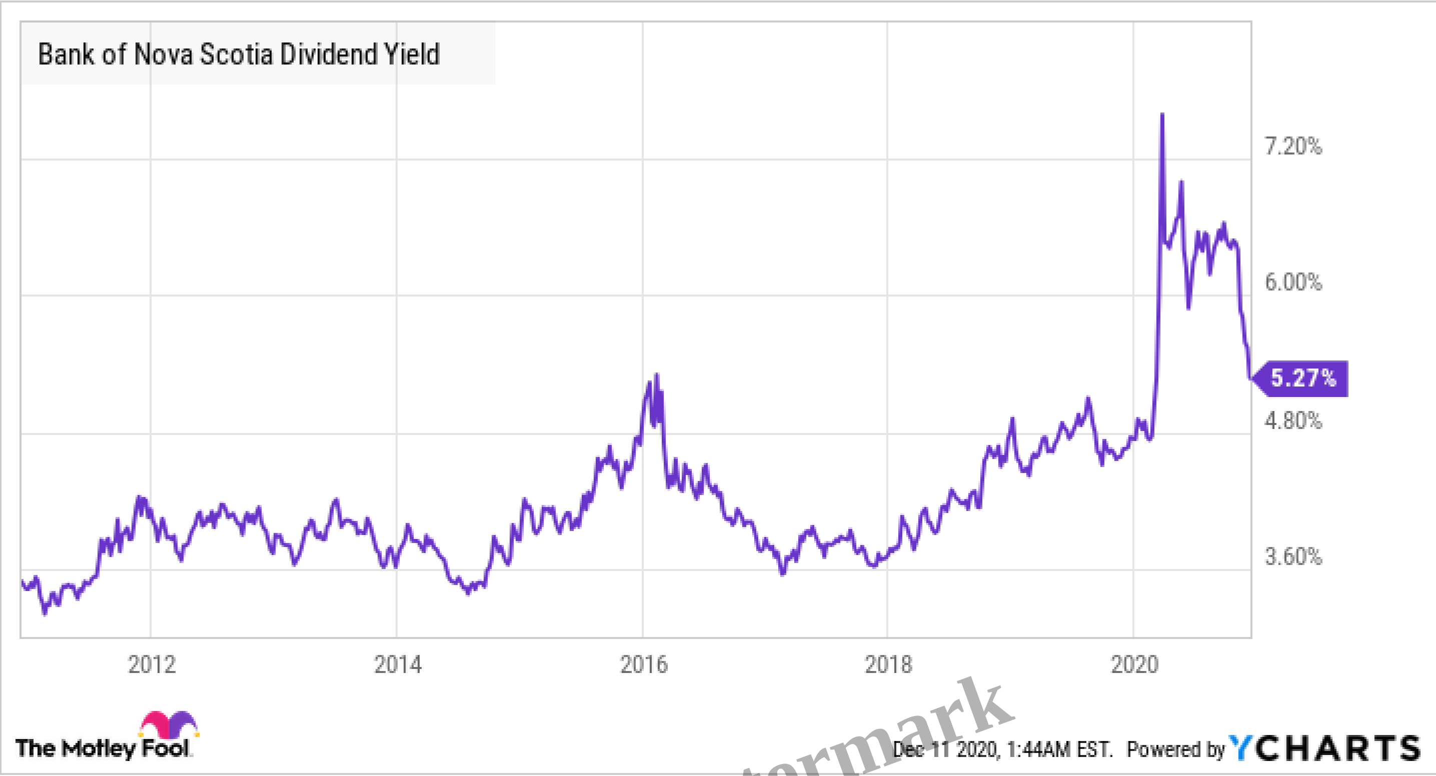
Bank of Nova Scotia stock

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is a solid bank that will survive through the pandemic like it had in past black swan events. Its fiscal year ended on October 31. Last week, it reported its fiscal Q4 and full-year results.

Despite a challenging year, the bank reported return on equity (ROE) of 10.4%. Although its adjusted earnings per share (EPS) declined by 25% to $5.36, it was able to keep its quarterly dividend of $0.90 per share safe with a payout ratio of 67%.

It's not uncommon for the big Canadian banks to not increase their payouts during harsh economic times. So, there wasn't much of a surprise there.

BNS's fiscal Q4 saw its adjusted EPS declining 20%, which was an improvement from earlier in the year.



BNS Dividend Yield data by YCharts. A chart showing BNS stock's 10-year dividend yield history.

With BNS stock's annualized payout of $3.60 per share, it still offers a big yield of 5.27% at $68.29 per share. According to its normal yield of 4.2%, the dividend stock is undervalued by about 20%. Indeed, the bank stock trades at a similar discount to its normal valuation based on the price-to-earnings ratio.

Within the next two to three years, BNS stock can return to the +$80-per-share level. This implies that buying the stock today could deliver annualized returns of at least 11% over the next three years — not bad for a blue-chip dividend stock! Notably, this estimate doesn't take into account the likely scenario of a resumption of BNS's dividend growth.

Manulife stock

Manulife (TSX:MFC)(NYSE:MFC) has been a resilient business through the pandemic. Last month, it reported its Q3 results. Year to date, its net income only fell 6% to $4,091 million. Its EPS in the period also dropped by a similar rate to $2.04. During the period, its dividend was sustainable with a payout ratio of 41%. Its ROE was also decent at 10.6%.

The insurer's operations have been defensive due to its diversified business. Specifically, its year-to-date core earnings, of more than $4 billion, are diversified across Asia (33%), the United States (32%), Canada (18%), and global wealth asset management (WAM) (17%). Its global WAM is further divided across retirement (53%), retail (32%), and institutional (15%) customers.

MFC Price to Book Value data by YCharts. A chart showing Manulife stock's 10-year price to book.

As shown in the chart above, it should be able to trade at a price to book of 1.20 in a normal environment. What a delight it is to see its book value increase by 8% to $25.49 per share year over year. A target price to book of 1.20 implies a price target of $30.58 per share.

At $23 per share, Manulife stock offers a 4.8% yield and roughly 33% near-term upside potential.

The Foolish takeaway

Bank of Nova Scotia stock and Manulife stock would make nice additions to a diversified stock portfolio. They offer nice yields of roughly 5.3% and 4.8%, respectively, for starters. Additionally, they are trading at decent discounts of approximately 20% and 25%, respectively. They should therefore experience market-beating price appreciation over the next few years as well.

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2. NYSE:MFC (Manulife Financial Corporation)
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4. TSX:MFC (Manulife Financial Corporation)

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