



3 Undervalued Dividend Stocks for Higher Returns in 2021

Description

Canadian stock valuations are looking expensive, thanks to the strong buying in equities following the selloff in March 2020. While most TSX stocks are trading at premium valuations, a few continue to offer good value and are likely to deliver big returns with the pickup in demand.

Let's delve into three TSX stocks that are [undervalued](#) and could deliver stellar returns in 2021.

Scotiabank

Scotiabank ([TSX:BNS](#))([NYSE:BNS](#)) is poised to benefit from economic reopening and progress on the vaccine front. The improving macroeconomic outlook is likely to result in good loan and deposit volume growth, supporting Scotiabank's revenues and profitability.

While the bank's earnings took a hit from the higher provision for credit losses amid the pandemic, I believe the pressure on earnings is likely to ease in 2021, reflecting a sequential decline in provisions. Moreover, Scotiabank's exposure to high-growth markets and diversified footprint should support its growth.

Besides improving growth prospects, Scotiabank attracts on the valuation front. It trades at a next 12-month P/BV ratio of one compared to its peer group average of 1.5. Further, its next 12-month P/E ratio of 9.7 is lower than the peer group average of 11.

Also, Scotiabank is known for its [robust dividend payments](#). The bank has consistently raised its dividends and is offering a high yield of 5.2%. At the current price levels, Scotiabank offers a unique mix of value, growth, and income.

Pembina Pipeline

I believe the economic reopening is likely to give a significant boost to the beaten-down energy stocks, including **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)). Its stock lost over 23% of its value in the past year, reflecting a decline in demand for crude and other hydrocarbons that it transports.

With improving operating prospects and pullback in its stock, Pembina Pipeline is looking attractive on the valuation front. Notably, Pembina Pipeline trades at a next 12-month EV/EBITDA ratio of 9.2, significantly lower than **Enbridge** and **TC Energy**'s forward multiple of 11.4 and 11.2, respectively.

Besides offering good value, Pembina Pipeline is likely to boost shareholders' returns through higher consistent dividend payments. The pipeline company's high-quality assets are backed by long-term contractual arrangements that generate robust fee-based cash flows and support its dividend payments. Currently, the pipeline giant yields about 7.4%, which looks lucrative, given the low-interest-rate environment.

Capital Power

Shares of the utility company **Capital Power** ([TSX:CPX](#)) are up over 24% in the last three months, and I expect the momentum in stock to continue in 2021. Capital Power stock looks highly attractive on the valuations, suggesting further upside in its stock.

Capital Power trade at next 12-month EV/EBITDA ratio of 8.4, which is about 33% lower than its peer group average of 12.5. In comparison, shares of **Algonquin Power & Utilities** and **Fortis** are trading at a forward EV/EBITDA multiple of 14.3 and 12.4, respectively.

Thanks to its high-quality utility assets, Capital Power generates robust cash flows that support its dividends. The company has increased its dividends by 7% annually over the past seven years. Meanwhile, it projects its dividends to increase by another 7% in 2021. Currently, Capital Power offers a high yield of 5.7%.

CATEGORY

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2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:CPX (Capital Power Corporation)
5. TSX:PPL (Pembina Pipeline Corporation)

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