2 Great Canadian Dividend Stocks That Are Too Cheap to Ignore

Description

Investors should take caution while chasing growth stocks in 2021 as the stock market is in the overvalued territory. However, investors should not miss out on top income stocks that are trading at a discount and are offering a high yield.

I believe the economic reopening and vaccine distribution could help revive consumer demand and support the corporate earnings, cash flows, and dividends in 2021.

Here are two dividend stocks that are undervalued and offer a high yield that is sustainable in the long run.

An undervalued utility company

Capital Power (TSX:CPX) stock is looking highly attractive at the current price levels. The utility company is trading at a forward EV/EBITDA multiple of 8.4, reflecting a discount of 32.6% from its peer group average. Notably, **Canadian Utilities**, **Fortis**, and **Algonquin Power & Utilities** stock are currently trading at a forward multiple of 10.7, 12.4, and 14.3, respectively.

Moreover, Capital Power's forward P/E ratio of 16.4 is also lower than the peer group average of 19.0.

While Capital Power stock is trading at a discount, it offers a high yield of 5.7%, which is very safe. Capital Power owns diversified and high-quality power-producing assets that generate stable and growing cash flows. Its long-term power-purchase agreements and accelerated growth in renewables position it well to deliver healthy earnings growth in the future and support its dividends.

Capital Power has raised its dividends at a compound annual growth rate (CAGR) of 7% since 2013. Further, it projects 7% growth in its annual dividend in 2021 and 5% in 2020.

A bank trading cheap

Bank stocks are likely to outperform as the pace of economic recovery gathers steam. I believe an uptick in economic activities and global trade is expected to spur credit demand and support the upside in bank stocks.

While Canadian bank stocks have seen strong buying over the past several months and have recovered most of their lost ground, **Scotiabank** (TSX:BNS)(NYSE:BNS) still looks attractive on the valuation front as it trades cheap compared to its peers.

Scotiabank trades at a P/BV (price to book value) ratio of 1.0, reflecting a discount of about 23% from its peer group average. Notably, shares of **TD Bank** and **Royal Bank of Canada** are trading at a P/BV ratio of 1.2 and 1.7, respectively.

I believe Scotiabank remains well positioned to benefit from the recovery in demand, thanks to its exposure to high-growth and high-quality markets. The bank's credit portfolio is likely to expand, while its deposit base is expected to sustain momentum and increase at a healthy pace. Further, Scotiabank's bottom line is expected to improve, reflecting a year-over-year decline in the credit provisions. Moreover, easy year-over-year comparables are likely to cushion its earnings in 2021.

While Scotiabank's performance on profitability is projected to improve in 2021, investors could expect the bank to increase its annual dividend. Scotiabank has raised its dividends at a CAGR of 6% since 2009. Moreover, it is paying dividends since 1833. With its annual dividend of $3.60 a share, Scotiabank offers a high yield of 5.1%.

CATEGORY

1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CPX (Capital Power Corporation)

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