2 Undervalued Canadian Dividend Stocks to Buy Now

### Description

Aiming to buy stocks at a discount can be one of the safest ways to riches. Stocks trade at a discount for a reason, but oftentimes stocks are discounted due to temporary issues that will resolve as time passes.

Here are two quality undervalued Canadian dividend stocks you can consider right now!



## Fortis stock

Utilities tend to have defensive earnings through economic cycles, because they offer essential products and services. In particular, Fortis's growth rate is highly predictable. Because Fortis is a regulated utility, analysts can better gauge the valuation of the company at any time.

Right now, the average analyst 12-month price target is $58.46 per share on Fortis stock, which indicates the stock is undervalued by about 11% at $52.04 per share.

Fortis's early investments in the United States, across Central Hudson, UNS Energy, and ITC Holdings, proved to be an excellent strategy, as these utilities are pulling most of the weight for its foreseeable rate-base growth.

Across its operations, the Canadian dividend stock estimates it will grow its rate base at a compound annual growth rate of 6% from 2020 to 2025. Its five-year capital program is also weighted a little more in the U.S., by 55% specifically.

Consequently, management sees growing Fortis's dividend safely by about 6% per year through 2025. Aside from gains from potential valuation expansion, investors can expect the stock to deliver returns of close to 10% a year based on a 3.88% dividend yield and a 6% growth rate. That is, should the value stock trade at a higher valuation, buyers today can secure roughly an extra 2% rate of return over the next five years.

## An undervalued tech stock

The fair valuation for a tech stock like **Enghouse Systems** (TSX:ENGH) is more debatable. The company's valuation depends partly on the success of its M&A. That includes finding fitting acquisitions at the right valuations and integrating them with little to no hiccups.

Enghouse has a track record of acquisitions and integrations, signified by its returns on equity (ROE) that ranged largely in the 14-18% range since fiscal 2011. The company had an exceptional year in fiscal 2020 for which it posted an ROE of almost 22%!

As a result, the tech stock had a super rally doubling from the 2020 pandemic market crash bottom to a high in mid-2020. At the all-time high, it traded at a price-to-earnings ratio as high as 46, which was supported by an earnings-per-share growth rate of 37%.

The market is expecting more normalized growth for the company going forward. Therefore, the dividend-growth stock sold off as much as 27% from the high. The market is starting to recognize that the tech stock is undervalued and has started buying up the stock again.

Currently, the consensus analyst 12-month price target of $79.20 per share suggests the stock is undervalued by about 22% at $61.60 per share.



## The Foolish takeaway

Fortis and Enghouse are trading at below their all-time highs, which could mean they're undervalued stocks. However, stocks that have sold off are not necessarily undervalued.

Analysts determine they're undervalued partly based on their track record of execution that results in good long-term returns for shareholders. Buying undervalued but proven stocks like Fortis and Enghouse should lead to nice returns over the next five years.

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