Top Dividend Stocks on Discount: My 3 Picks

Description

Amid high volatility and a lower interest rate environment, dividend-paying stocks emerge as top investments to generate steady income. Further, several top TSX dividend stocks are still trading at a considerable discount and look attractive at current levels. So, if you plan to channel a portion of your savings into income stocks, here are my top three picks.

Scotiabank

The economic expansion following the easing of lockdown mandates has led to a sharp recovery in Canadian banking stocks. While **Scotiabank** (TSX:BNS)(NYSE:BNS) recovered all of its lost ground, it is still trading a discount compared to its rivals and looks attractive on the valuation front.

Scotiabank stock trades at a P/B (price-to-book value) ratio of 1.5 compared to its peer group average of 1.8. Meanwhile, its P/E (price-to-earnings) multiple of 10.5 is lower than its peer group average of 11.6.

Besides trading at a discount, Scotiabank stock offers a solid dividend yield of 4.6% and has been consistently paying dividends since 1833. Moreover, it has consistently increased its earnings at a decent pace, which has allowed Scotiabank to boost its shareholders' returns through higher dividend payments.

Overall, its low valuation, expected increase in loans and deposit volumes, exposure to high-growth markets, lower provisions for credit losses, and operating leverage support my bullish outlook.

Capital Power

Speaking of high-quality dividend stocks trading cheap, consider buying the shares of **Capital Power** (TSX:CPX). Its stock is trading incredibly cheap compared to peers and offers a solid dividend yield of 5.6%.

Capital Power stock trades at a forward EV/EBITDA ratio of 7.6. This represents a discount of about 39% from its peer group average. Moreover, its NTM (next 12-month) P/E multiple of 17.9 is also lower than its historical average and peer group average.

Capital Power owns diversified renewable power assets that are supported by long-term contracts. Its low-risk business and predictable cash flows support its higher dividend payments. Notably, Capital Power has raised its dividends for eight years in a row. Moreover, I remain upbeat over its prospects and expect it to continue to grow its dividends at a healthy pace. Investors should note that its payout ratio of 45-55% is safe and sustainable in the long run.

Pembina Pipeline

If you are eying a reliable monthly dividend income, add **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) stock to your portfolio. While the recovery in volumes and higher commodity prices have led to a recovery in Pembina stock, it is trading at a lower valuation multiple and offers a very high dividend yield.

Pembina Pipeline stock trades at an NTM EV/EBITDA multiple of 10.1 compared to its peer group average of 11.6. Moreover, it compares favourably to its historical average.

Notably, Pembina has a rich history of paying and growing its dividends. It has paid dividends for more than 22 years. Meanwhile, its dividends have increased at an average annual rate of about 5% in the past decade.

Its highly contracted assets and strong fee-based cash flows support its payouts. Meanwhile, its new growth projects and strong backlogs indicate that the company could continue to grow its earnings and, in turn, its future dividends at a decent pace.

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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