2 Undervalued Stocks to Buy Now

Description

The recent volatility in the **TSX Index** and a surge in commodity prices is giving investors a chance to buy some top Canadian stocks at cheap prices.

Suncor

Suncor (TSX:SU)(NYSE:SU) trades near $38 per share at the time of writing. The stock is up 14% in 2022, and more big gains should be on the way.

Brent oil is above US$103 per barrel at the time of writing, and WTI oil sits around US$96. Analysts widely expect WTI to bolt above US$100 and many are calling for a surge to US$120 in the coming months.

Suncor is best known for its oil sands operations. This segment of the company can generate significant free cash flow at current oil prices. The 2021 results showed how much a difference the rebound in the price of oil made last year. Suncor used the windfall to pay down debt and buy back a large chunk of stock. In the fall, the board raised the dividend by 100%, and Suncor continues to aggressively repurchase shares in 2022.

If oil simply holds in a range of US$80-90 for most of this year, investors should see another large dividend increase.

The downstream operations, which include refineries and roughly 1,500 Petro-Canada retail locations should benefit as restrictions end and people start traveling more by air and car. Fuel demand could soar in the second half of 2022. Companies are already making plans to move workers back to the office and airlines are ramping up domestic and international capacity.

Suncor traded at $44 before the pandemic when WTI oil was about US$60 per barrel. With fuel demand expected to top 2019 levels this year, Suncor looks undervalued. Investors who buy now can pick up a 4.4% dividend yield.

Manulife

Manulife (TSX:MFC)(NYSE:MFC) generated a record $7.1 billion in earnings in 2021. That was a $1.2 billion increase over the previous year. Core earnings came in at $6.5 billion, up 26% year over year on a constant exchange-rate basis.

The strong results prompted the board to raise the dividend by 18% when the Q3 results came out late last year. Manulife has also put a plan in place to repurchase up to 5% of the outstanding stock under the current share-buyback plan.

The new quarterly dividend of $0.33 per share provides a 5% dividend yield at the current share price near $26. Manulife trades close to where it was a year ago, despite the strong performance over the past 12 months. The stock is down from a recent high of $28, so there is an opportunity to buy a nice dip.

Looking ahead, Manulife should benefit from the anticipated increase in interest rates in the United States and Canada. Higher rates tend to be good for insurance companies because the firms can generate better returns on cash they have to set aside to cover potential claims.

Manulife's Asia business should do well as the pandemic fades. The region also offers attractive prospects in the coming years and decades. Middle-class expansion should drive higher demand for insurance and wealth management products.

This is a good stock to buy if you want a financial pick with international exposure.

The bottom line

Manulife and Suncor pay attractive dividends that should continue to grow. The stocks look cheap at the current prices and could deliver market-beating total returns in the next few years. If you have some cash to put to work in a TFSA or RRSP focused on dividends, these stocks deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SU (Suncor Energy Inc.)

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Date
2025/08/27
Date Created
2022/02/28
Author
aswalker