TFSA Pension: 2 Cheap Dividend Stocks to Buy Now and Own for Decades

Description

The recent pullback in the financial sector and ongoing weakness in renewable energy is giving dividend investors a chance to buy some top stocks at undervalued prices.

CIBC

CIBC (TSX:CM)(NYSE:CM) trades near $148 per share at the time of writing compared to the 2022 high of $167.50. Investors can now pick up the stock for less than 10.5 times trailing 12-month earnings and get a 4.3% dividend yield.

CIBC has done a good job in recent years of diversifying the revenue stream through acquisitions in the United States that are focused on commercial banking and wealth management. The bank is still heavily reliant on the Canadian housing market, so a big plunge in house prices would likely hit CIBC harder than its domestic peers. That being said, the supply shortage in the Canadian residential housing segment will likely keep prices elevated, even as higher mortgage rates temper demand. Some homeowners will get a shock when they have to renew their mortgages, but a flood of defaults is unlikely, and CIBC has a significant capital cushion to ride out any turbulence.

Additional downside in the bank sector could be on the way in the near term, as the market tries to digest the impact of the bond yield inversions and rising interest rates. That being said, any meaningful weakness in CIBC's share price from this level should be viewed as an opportunity for buy-and-hold dividend investors to pick up the stock.

CIBC raised its dividend by 10% late last year. Another generous increase is likely on the way for 2023.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) had a rough run in 2021. The company saw revenue take a hit after an unplanned outage at a gas-fired power plant, and the discovery of faulty foundations supporting 50 wind turbines. The issue at the power plant has been resolved and TransAlta

Renewables has provided cost and timeline guidance on the repair of the wind turbines at the Kent Hills sites in New Brunswick.

These issues combined with a general selloff in renewable energy stocks last year sent the share price down from $23.50 in early 2021 to as low as $16. The stock is back up to $19 at the time of writing but still looks cheap.

Why?

TransAlta Renewables expects 2022 adjusted EBITDA to be 9% higher than 2021 at the midpoint of its guidance, supported by the full operation of the power plant that had issues last year and the addition of revenue from new acquisitions and completed growth projects.

Even with all the operational challenges, TransAlta Renewables still generated adjusted EBITDA in 2021 that was similar to the previous year.

The distribution should be safe. Investors who buy now can pick up a 4.9% dividend yield.

The bottom line on cheap dividend stocks to buy today

CIBC and TransAlta Renewables pay attractive dividends and trade at prices that look undervalued. If you have some cash to put to work in a self-directed TFSA or RRSP portfolio focused on dividends, these stocks deserve to be on your radar.

CATEGORY

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3. TSX:RNW (TransAlta Renewables)

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