2 Undervalued Dividend Stocks to Buy Now for Passive Income

Description

Retirees and other dividend investors are searching for quality dividend stocks that trade at reasonable prices and offer attractive distribution growth in the coming years.

Suncor

Suncor (TSX:SU)(NYSE:SU) slashed its dividend by 55% in 2020 to protect against uncertainty through the pandemic. Investors punished the company for the move and are still not giving Suncor much attention, even after the board raised the payout by 100% last fall to bring it back to the 2019 level.

Suncor trades near $42.50 per share at the time of writing. The stock was above $44 before the 2020 crash when WTI oil traded for about US$60 per barrel. Oil sands peers have seen their share prices soar well above the pre-pandemic level with WTI oil now at US$100, so Suncor has some ground to cover.

The company took advantage of the cash windfall in 2021 to buy back stock and pay down debt. Share repurchases are ongoing, and investors could see another large dividend increase when the Q1 or Q2 2022 results are announced. Suncor should benefit from the anticipated rebound in jet fuel and gasoline demand in the second half of 2022. The company has large refineries and about 1,500 Petro-Canada retail locations.

The stock looks undervalued right now and offers a 4% dividend yield.

CIBC

CIBC (TSX:CM)(NYSE:CM) trades near 10 times trailing 12-month earnings at the time of writing. That's pretty cheap for a top-quality bank that generated return on equity (ROE) of better than 17% in the latest quarter.

CIBC typically trades at a discount to its larger Canadian peers. One reason is the company's track record for making big blunders. Another reason is CIBC's large exposure to the Canadian residential housing market. CIBC finished fiscal Q1 2022 with $249 billion in residential mortgages. **Royal Bank**, for example, finished Q1 2022 with $338 billion in residential mortgages, roughly 36% more than CIBC. However, Royal Bank is much larger with a current market capitalization of $190 billion compared to $65 billion for CIBC.

In the event there is a meltdown in the housing market, CIBC would likely take a larger relative hit than its peers, so investors have to keep this in mind when evaluating the stock.

That being said, CIBC reported a CET1 ratio of 12% at the end of fiscal Q1 2022, which means it has significant extra capital to ride out some tough times. CIBC has also done a good job of diversifying its revenue stream through U.S. acquisitions in recent years. That trend could continue.

Despite the housing risks, the stock looks cheap today. Investors can get a 4.4% dividend yield and should see steady payout growth in the next few years. CIBC raised the dividend by 10% late last year.

The bottom line on cheap income stocks

Suncor and CIBC pay attractive dividends that should continue to grow. The stocks appear undervalued right now and should be good picks for a portfolio focused on passive income.

CATEGORY

1. Dividend Stocks
2. Investing

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3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:SU (Suncor Energy Inc.)

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