3 Undervalued Stocks for Your Dividend Portfolio

Description

Not all undervalued dividend stocks are discounted, though combining both “traits” might offer you the best return potential. The discount will help you lock in a higher yield, while the valuation might add to the capital-appreciation potential.

However, if you are looking for heavily undervalued dividend stocks, three should be on your radar.

A REIT

Artis REIT (TSX:AX.UN) is a commercial REIT with an office-heavy, geographically diversified portfolio of properties. Almost half the portfolio of 156 properties (47.7%) comprises office properties, and about 40% of the properties are in the U.S.

Unfortunately, it’s also the least-leased asset class of all — 86% compared to 95.5% of the industrial. However, this trend will most likely change once the work-from-home trend becomes a thing of the past.

The REIT is currently quite brutally undervalued, even if you consider that the REIT pool is presently leaning towards the undervalued side. It has a price-to-earnings of 4.7, even though it’s currently trading at a 3.6% premium to its pre-pandemic peak and its highest price yet. It’s now offering a yield of 4.4%.

A metal distribution and processing company

If you are looking for a dividend stock with a severe competitive edge, **Russel Metals** (TSX:RUS) would be a good bet. It’s the premium metal distribution and processing company that makes the bulk of its revenue from its metals service centres. The company has a network of 131 locations, mainly in Canada but about a fourth in the U.S.

The stock is preferred primarily for its dividends though right now, it’s also an attractive buy from a valuation perspective. The current yield is 4.3%, the price-to-earnings ratio is 5.1, and the price-to-book ratio is just 1.8 times. It also offers cyclical capital potential, though it's not very impressive. Considering its valuation, the current growth phase might continue longer than usual.

An iron ore royalty company

Labrador Iron Ore Royalty (TSX:LIF) has royalty in the Iron Ore Company of Canada. And even though it's the smallest shareholder of the three, it gets to take advantage of the underlying company's strengths.

They include its high-purity iron ore (65%) and an extended mine life — at least 25 years based on proven reserves. This ensures that the financials behind the dividends will remain solid for at least two more decades.

The stock is currently offering a juicy yield of 4.9% and is undervalued as well, with a price-to-earnings of 6.8. It also offers decent capital-appreciation potential.

The stock has appreciated over 133% in the last five years alone, and considering the pre- and post-pandemic growth pattern, the growth might continue for a relatively long time.

Foolish takeaway

The three undervalued stocks can be solid additions to your dividend portfolio. All three have strong positions in their respective industries and healthy financials, which may translate into stable dividends over a long period of time.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:LIF (Labrador Iron Ore Royalty Corporation)
3. TSX:RUS (Russel Metals)

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Author
adamothman