Get Passive Income of up to 4.8% With These Undervalued Dividend Stocks

Description

The market correction is providing opportunities to buy dividend stocks at cheaper prices. This means investors can get more value and juicier income immediately. Here are some dividend stocks you can consider picking up in this market downturn. If you buy them at bargain levels, you can even sit back and hold shares for long-term passive income.

A cheap dividend stock yielding 4%

Parkland (TSX:PKI) is a food and convenience store operator that also supplies and markets fuel and petroleum products. It operates in 25 countries and territories in Canada, the U.S., and the Caribbean.

The company's results were impacted during the pandemic in 2020 but have quickly normalized. By 2021, its revenue climbed 16% to almost $21.5 billion versus the normal levels in 2019. Its adjusted gross margin of $2.8 billion also rose marginally, while its adjusted EBITDA, a cash flow proxy, was immaterially lower. As well, its net cash from operating activities rose marginally to $904 million.

Investors should note that Parkland switched from a monthly dividend stock to paying a quarterly dividend this month. The annualized dividend payout of $1.30 per share is the same. It is a Canadian Dividend Aristocrat that has paid an increasing dividend every year since 2013. The stock yields 4% at $32.23 per share at writing and is undervalued by about 32%. It's cheap now, but if it yields over 5%, it'll be a super bargain!

One thing to note is that Parkland's debt levels are relatively high with a debt-to-assets ratio of 81%. However, its current ratio is solid at 1.54. So, it should have no problem meeting its short-term obligations.

Also, its non-current debt-to-assets ratio is 61%, which appears more manageable. Assuming interest expense applies for long-term debt only, its average interest rate is about 4.5% currently, which is reasonable. But rising interest rates will increase its interest expense.

Importantly, Parkland generates substantial cash flow that covers its dividend. After subtracting for capital spending and paying out cash dividends, the company still had $48 million remaining in free cash flow for the trailing 12 months.

An undervalued bank stock to collect a juicy dividend of 4.8%

Canadian Western Bank (TSX:CWB) stock has been unfairly punished from the scenario of a looming recession. While the bank's earnings have historically been cyclical, it has been stably profitable.

For example, in the worst year of the last 20 years, its diluted earnings per share fell 19% in fiscal 2016. In the five other "down" years, the bank stock experienced earnings declines of only 3-7%. Furthermore, in all but one of those years, its earnings started recovering strongly in the subsequent year.

CWB's stock performance is much more cyclical than its actual business performance. This means that most of the time, the market fear has driven the downside of the stock. It follows that it's a strong buy on corrections.

At $25.57 per share at writing, Canadian Western Bank trades at about 7.3 times earnings. It can normally trade at about 11.8, which suggests a meaningful discount of about 38%. Nevertheless, it could take three to five years to hit that normal valuation. While waiting for price gains, investors can collect a juicy yield of over 4.8% from the solid dividend stock.

More food for thought

Both undervalued **TSX** stocks are good dividend payers. But the market correction can continue to pressure the stocks. Investors should be ready to ride through volatility to collect nice dividends and hopefully benefit from a rebound in the stock prices in the long run.

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