TFSA Investors: 2 Incredible Deals to Buy Today

Description

Tax-Free Savings Account (TFSA) investors should aim to maximize their tax-free returns while not taking excessive risk. Here are two incredibly undervalued dividend stocks that could deliver outsized returns over the next five years. First, we have a cheap big Canadian bank stock that provides attractive passive income. Second, we have an incredibly cheap tech stock that's trading at the pandemic market crash levels.

BNS stock: An incredible deal for passive-income investors

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) stock has dipped meaningfully by about 7.4% from before it reported its fiscal third-quarter (Q3) 2022 earnings results. The stock selloff is an incredible deal for income investors to buy the undervalued stock for a safe, high yield.

For the quarter, the bank reported adjusted net income growth of 2% and adjusted earnings-per-share (EPS) growth of 4% year over year. Particularly, its Canadian Banking segment, which makes up close to half of its earnings, increased its adjusted net income by 12%. This segment was driven by strong loan and deposit growth coupled with net interest margin expansion helped by rising interest rates. Additionally, its International Banking segment saw incredible adjusted net income growth of 30%. However, these results were dragged down by its Global Wealth Management and Global Banking and Markets segments.

Like its other big Canadian banking peers, BNS also conservatively provisioned for a less-favourable macroeconomic outlook. Consequently, the Canadian bank put aside more reserves than Q1 and Q2 this fiscal year, which also weighed on its results.

Overall, Scotiabank's juicy dividend yield of 5.5% is safe — supported by a payout ratio of about 48% this year. BNS stock is an incredible deal for passive-income investors on this and further dips. The bank's 10-year EPS growth rate is 5.3%. Assuming a 5% EPS growth rate and a reversion of the Canadian bank stock to the mean, BNS stock can deliver total returns of over 13% per year over the next five years.

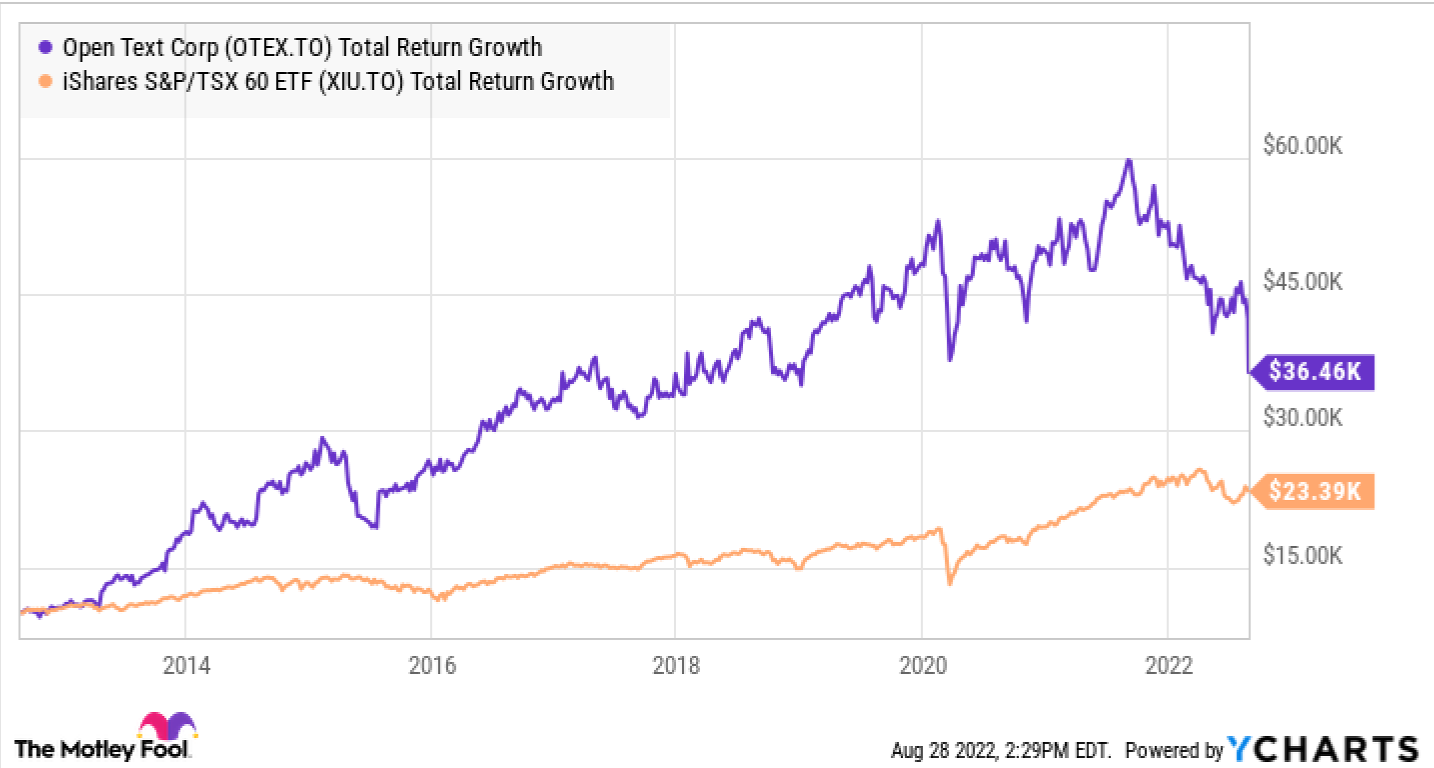
Cheap tech stock trading at the pandemic market crash levels

Here's another stock that has sold off significantly recently. **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is a global information management solutions provider that has a 30-year track record of making bolt-on acquisitions that create long-term shareholder value.

The acquisition of U.K.-based **Micro Focus** unveiled last Thursday was more than a bolt-on acquisition. Micro Focus's enterprise value is approximately US$6 billion. Open Text is funding the acquisition with cash and debt (including about US$4.6 billion in new debt financing). It's not pushing out any equity, so it doesn't dilute the stakes of existing shareholders. Open Text stock fell off a cliff in reaction to the acquisition news. The stock closed at an enterprise value of about US$11.2 billion.

The market questions whether this may be too big a bite. Only time will tell if Open Text can handle the integration and whether Micro Focus is as good an acquisition as Open Text management thinks.

Independent industry analysis firms, including Gartner and IDC, estimate the acquisition can roughly double Open Text's target market to US$170 billion. Open Text targets to optimize the operations within six quarters and bring down its net leverage ratio to less than three times within two years. The combined company is expected to have annualized revenue and adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), a cash flow proxy, of about US$6.2 billion and US$2.2 billion, respectively.



OTEX Total Return Level data by YCharts

Despite the substantial drop of close to 14% in the tech stock on Friday, it has still outperformed the market in the long run, as shown in the graph above. If the integration works out well, patient investors could see total returns of north of 20% per year over the next three to five years. Now, that'd be an incredible investment in a TFSA!

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2. Investing

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2. NYSE:BNS (The Bank of Nova Scotia)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:OTEX (Open Text Corporation)

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