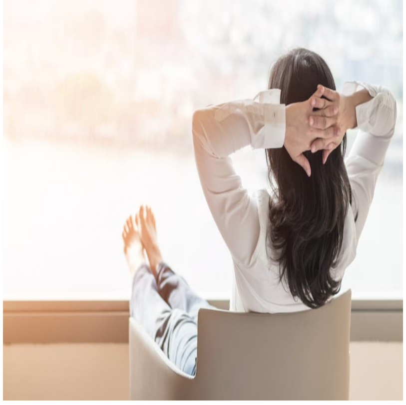

2 Undervalued Dividend Stocks for Big Passive Income

Description

Rising interest rates have made dividend stocks less attractive, which is one reason why dividend stock valuations have come down recently. For example, currently, the best guaranteed investment certificate (GIC) rate is 4.85%, which is available for a two-year non-redeemable GIC. This is a riskless investment. In other words, it has no risk of loss of principal. As a result, risk-averse Canadian investors would lean towards GICs for income. Yet if you need more income, you might give these undervalued stocks that offer big dividends a closer look.

BNS stock

The big Canadian banks operate in an oligopoly structure and take up most of the banking market share in the country. The well-regulated financial system also encourages durable profits for these banks, including **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS), which is the third-largest bank.

Lately, the bank stocks have been pressured by high inflation and rising interest rates, which are a double whammy for the economy. As a result, bank earnings are experiencing a setback. At best, we'll see slower growth in the near term. At worst, if interest rates rise too quickly, we could even witness another recession.

But the banks have been through similar adversity time and time again, pulled through, and thrived. In particular, BNS stock has paid dividends for more than a century without cutting them. Its earnings are durable, pulling in net income over $10 billion in the trailing 12-month (TTM). So, investors should highly consider locking in a high yield from the big-dividend stock on pullbacks.

As of writing, the cheap bank stock has corrected more than 25% from its 52-week and all-time high to $70.58 per share. It's not a riskless GIC, though. On the contrary; it has higher-return prospects.

First, it provides amazing passive income — a yield of 5.8%! Second, it tends to increase its dividend over time from steadily growing earnings. Third, it trades at about 8.4 times earnings, which is a discount of approximately 28% from its normal long-term valuation. This discount can drive meaningful price appreciation down the road. Its five-year total returns could be 10-15% per year, depending on how much valuation expansion it experiences.

Manulife stock

Manulife (TSX:MFC)(NYSE:MFC) is another cheap, high-yield dividend stock. The **TSX** stock has traded in a wide sideways channel since 2016, while its earnings have been on a steady rise. At $22.22 per share at writing, it now trades at about seven times earnings. This is a super-cheap valuation versus the 8.6% earnings-per-share (EPS) growth rate that is expected over the next three to five years.

Investors could essentially park their money in Manulife stock for a yield of 5.9%. The life and health insurance company reported TTM net income available to common stockholders of $7.5 billion, which equates to a sustainable payout ratio of about 36%. Moreover, because its portfolio has a high exposure to fixed-income investments, it should benefit from rising interest rates.

Using a more conservative EPS growth rate of 7%, MFC stock's five-year total returns could be 13-21% per year, depending on how much valuation expansion it experiences.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:MFC (Manulife Financial Corporation)

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