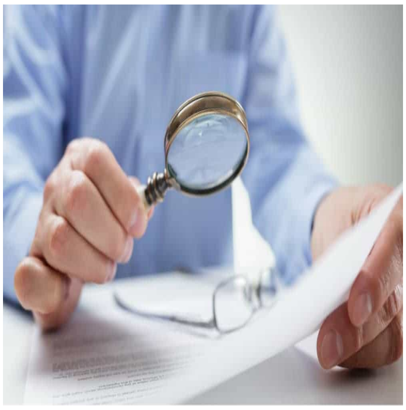

2 Undervalued Dividend Stocks to Explore in 2022

Description

Value stocks can provide good risk-adjusted returns, particularly when they pay nice dividends along the way. Canadian investors are in for a treat, because we're a natural resource country, and the Canadian stock market is full of opportunities to buy value stocks.

This year, and potentially going into 2023, market volatility can bring undervalued stocks right to the doorstep of your investment portfolio. Which value stocks will you accept into your portfolio? Here are a couple to start exploring.

Great value in this well-managed energy stock

Parex Resources (TSX:PXT) is a conservatively managed oil and gas producer. It has a clean balance sheet and was able to generate free cash flow, even through the worst of the pandemic economic shutdowns in 2020.

Although historical success doesn't translate into future success, it could be indicative of the future. The oil stock amazingly outperformed the market and the energy sector, delivering a compound annual growth rate (CAGR) of 17.8% in the last 10 years versus the market's 8.7% and the energy sector's minuscule CAGR of 1.7%.

Moreover, the energy stock started paying a quarterly dividend a year ago, which could improve the return stability for long-term shareholders. Its trailing 12-month payout ratio was sustainable at less than 20% of free cash flow.

At $21.47 per share at writing, the energy stock trades at a tremendous value — at less than three times cash flow. And it offers a yield of 4.7%. Analysts currently have a 12-month average price target of $39.84 on the stock, which represents more than 85% near-term upside potential.

Excellent value in this cheap Canadian bank stock

An excellent value opportunity is very obvious at **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). The selloff in the bank stock is largely due to negative market sentiment. The big bank stock trades at a lower valuation than the banking sector average.

Investors are probably concerned about its exposure to emerging markets in Latin America. Bad loans are expected to increase more in those regions than in North America.

However, in the grand scheme of things, the bank remains highly profitable. It makes most of its earnings in Canada. For example, in fiscal 2021, it generated 68% of its adjusted earnings domestically. In fact, it has stayed profitable through economic cycles, which is highly unlikely to change. Consequently, it has maintained or raised its dividend for more than a century.

Just how cheap is the undervalued stock now? At $72 per share at writing, it trades at about 8.6 times earnings and offers an awesome yield of 5.7%. In other words, it trades at a decent discount of 26% from its long-term normal valuation. It is an ideal passive-income investment given its low valuation, big dividend yield, and safe payout ratio of below 50%.

The Foolish investor takeaway

The stocks are trading at excellent value. However, a potential recession, if one materializes, could whipsaw the stock market. A bear market could make these stocks even cheaper. That said, long-term investors should be able to generate good returns, especially if they aim to potentially sell when these dividend stocks trade closer to their intrinsic values.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:PXT (PAREX RESOURCES INC)

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