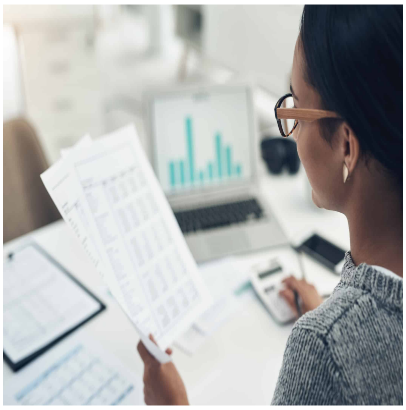

2 Oversold TSX Stocks to Buy for Passive Income

Description

Looking to establish passive income with dividend stocks?

If so, it helps to look at oversold stocks.

Oversold stocks are stocks that have been beaten down severely in the market, leading traders to expect them to bounce. Strictly speaking, the use of the term *oversold* isn't always accurate, as stocks that have been sold off harshly can sometimes go even lower. Nevertheless, when it comes to dividend stocks, those that are deemed oversold often have high yields, because a lower stock price drives the yield higher, all other things the same.

That doesn't mean you should just rush out and buy any old dividend stock that has been beaten down in the markets. To the contrary, you need to be sure that the stock really is "oversold" and not justifiably sold. In this article, I will explore two Canadian dividend stocks that appear to be oversold given their recent price momentum and fundamentals.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is a Canadian bank stock with a 5.24% dividend yield. Down 11.4% this year, there's a strong case to be made that it is oversold. In its most recent quarter, CIBC delivered

- $1.66 billion in net income, down 4%;
- A 15.1% return on equity, nearly unchanged from the prior year;
- $2.465 billion in pre-provision earnings (see explanation below), up 10%; and
- $1.78 in earnings per share (EPS), down 5%.

Some of the terms above may sound complex, so to explain briefly:

- Return on equity is a profitability measure. It means net income divided by equity. Equity itself is assets minus liabilities.

- Pre-provision earnings means earnings without provisions for credit losses (PCLs). PCLs are money banks have to set aside for loans that might go bad.
- EPS is earnings divided by number of shares outstanding.

Basically, what all of the above bullet points mean is that CIBC's profit grew 10% in the last quarter if you exclude PCLs. Higher PCLs simply mean that the bank thinks its loans are getting riskier, it's not a cash cost. In the future, when the economy starts expanding, CIBC will be able to reverse its PCL buildup, which could cause earnings to rise. If that happens, then CM stock will look to have been oversold at today's prices.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a Canadian oil stock that has been beaten down severely in recent months. Like most Canadian oil stocks, it rallied in the first half of the year. Also like most Canadian oil stocks, it fell dramatically in the second half. Oil prices began falling in June, so it's no surprise that oil companies in general showed weakness.

What is interesting is just how much cheaper Suncor has gotten compared to other oil stocks. At today's prices, SU trades at just 6.4 times earnings and 3.8 times operating cash flow. The same metrics for most other oil companies are much higher, so we've possibly got a true oversold value stock on our hands here.

The bottom line

The bottom line is, if you're looking for passive income, it pays to buy low. Technically, that's true with all stocks, but it's especially true with dividend stocks, for which the yield grows ever higher as the price goes down.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise

8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. kduncombe

Category

1. Investing

Date
2025/07/22
Date Created
2022/09/24
Author
andrewbutton