These Tax-Loss Selling Targets Look Like Screaming Deals Today

Description

Although we would just love to have every investment increase in value and make us money, not every investment works out. Thankfully, if you hold stocks in non-registered accounts that you don't expect to come back, you're able to sell them to offset capital gains, thereby reducing your tax implications.

For example, if you happen to book $5,000 of capital gains and $5,000 of capital losses this year in non-registered accounts, you would pay no capital gains tax for the transactions. Just make sure you didn't buy shares of the same stock 30 calendar days before or after the sale, as this would result in superficial losses, which cannot be used to offset capital gains.

Tax-loss selling season is in December. So, it's the perfect time to shop for losers that you think could be winners in the future. Dividend stocks that are down meaningfully this year could be further pressured during this tax-loss selling season. Here are a couple of TSX stocks that look like screaming deals today.

Sienna Senior Living

The senior living industry was hit hard during the COVID-19 pandemic, which resulted in lower occupancy but **Sienna Senior Living** (TSX:SIA) has been steadily improving its portfolio occupancy. Specifically, year to date (YTD), its retirement and long-term-care portfolios saw their average occupancy improving 7.8% to 86.5% and 5.7% to 88.4%, respectively.

Higher inflation and interest rates have been a challenge this year in addition to labour shortages. These issues have weighed on Sienna's operating margin and are likely to persist going into 2023. Its YTD same-property net operating income (NOI) fell 7.2% and total NOI fell 6.7%. However, the EBITDA (earnings before interest, taxes, depreciation, and amortization) increased by 16%. The YTD payout ratio was 97% of operating funds from operations (versus 80% year over year). Accordingly, the dividend stock has fallen meaningful by about 27% year to date.

The stock's debt to gross book value improved 2.3% to 43.3%. Although the weighted average cost of debt increased to 3.6%, its YTD interest coverage ratio of 3.3 and debt service coverage ratio of 1.8

remain manageable.

The dividend stock pays well for the higher near-term uncertainty of the business. At writing, Sienna yields 8.5%, which is favourably taxed as eligible dividends in non-registered accounts. Additionally, at $10.95 per share at writing, analysts believe the undervalued stock has about 32% upside potential over the next 12 months. There's a higher chance of this upside materializing for shareholders through at least 2024.

Algonquin stock

Another TSX stock that's subject to tax-loss selling through December is **Algonquin Power & Utilities** (TSX:AQN) stock.

YTD, the utility stock lost almost half of its value. The culprits are a relatively high debt levels on its balance sheet, lower earnings expected for the year, and an extended payout ratio that could result in a dividend cut next year.

As it stands now, the dividend stock yields about 9.9% and has about 51% upside potential over the next 12 months. It would be safer for investors to have an investment horizon of at least three years for this stock. Assuming the dividend were to be cut in half and the stock took three years to turn around, it could deliver annualized returns of almost 20%.

The Foolish investor takeaway

These TSX stocks could make a comeback over the next few years and may be good ideas for higher-risk dividend investors. Although tax-loss selling season is in December, investors should look for opportunities to book losses in lost causes strategically throughout the year.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:SIA (Sienna Senior Living Inc.)

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