3 Unjustifiably Cheap Dividend Stocks

Description

This year, a lot of dividend stocks are cheap. Dividend stocks in general have outperformed the broader markets this year, but that doesn't mean that they've exactly rallied. Banking stocks have fallen, utility stocks have traded mostly flat, and energy stocks, though up for the year, are down from their all-time highs. This is peculiar because, it many cases, these companies' earnings and dividends are actually going up.

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In this article, I will explore three dividend stocks that are unjustifiably cheap at today's prices.

Suncor Energy

Suncor Energy (TSX:SU) is a Canadian energy stock with a 5.12% dividend yield. Despite having such a high yield, the company's stock is not popular right now. Up 23% for the year, it has lagged behind the broader energy sector. Further, while the stock is up since the beginning of the year, it is down 24% from its all-time high.

Why is Suncor stock so out of favour this year?

The biggest factor would have to be oil prices. Since hitting a high of US$123 this past summer, West Texas Intermediate crude has fallen to $73. The lower the price of oil goes, the lower Suncor's revenue will be.

Second, Suncor has been involved in controversies this year. It took a lot of criticism because of workplace safety incidents at its sites. It was targeted by activist investors who said its gas station business would be worth more spun off.

Finally, Warren Buffett exited the stock last year, so it no longer has a "superstar" holder. All of these factors combined to dim sentiment toward Suncor this year. But with its 5% dividend yield and single-digit P/E ratio, it's still cheap and high yielding.

Canadian Imperial Bank of Commerce

Canadian Imperial Bank of Commerce (TSX:CM) is another Canadian stock that has been beaten down this year. It has a 5.77% dividend yield, which is the highest of Canada's Big Six banks. Part of the reason why CM's yield is so high is because its stock price has been beaten down.

In its most recent fiscal year, CM delivered $21.8 billion in revenue, up 9%, and $6.68 in earnings per share (EPS), down 4%. It might look bad on the surface that earnings declined, but keep in mind that a lot of that was due to "on-paper" factors. When loans are perceived to increase in risk, banks have to set aside reserves to cover the losses. That's money they can't spend on dividends, but it's not really a "loss."

If defaults don't occur, then reserve build can reverse in the future, causing earnings to spike. I believe that, in CM's case, this will happen in the next 12-24 months.

Bank of America

Bank of America (NYSE:BAC) is another bank stock whose earnings are technically going down but whose interest income is really rallying. The bank trades at just 10 times earnings, yet its net interest income (loan income minus deposit costs) increased by 24%! It was a great showing by America's biggest bank. With a 2.7% yield, BAC doesn't have quite the income potential that CM does right now, but its dividend could grow in the future.

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