2 Undervalued TSX Stocks Worth Buying Right Now

Description

The market correction is driving down the share prices of some of Canada's top dividend stocks to cheap and attractive levels. Investors with a buy-and-hold investing strategy can now get great dividends yields with a shot at decent upside in the stock price when the TSX rebounds.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) trades at just 8.1 times trailing 12-month earnings at the time of writing. This is the kind of multiple one might expect to see in the face of a financial crisis. A recession is likely on the way in 2023 or 2024, and it could end up being more severe than economist currently predict, but the drop in the share price of Bank of Nova Scotia still appears overdone.

The bank generated adjusted fiscal 2022 earnings that beat the 2021 results. Next year might be more challenging. Revenue could slip on reduced mortgage sales and lower business borrowing, while loan losses will likely increase, as the impact of soaring interest rates hits households and companies.

One thing investors might be missing, however, is the fact that higher interest rates also tend to boost net interest margins for the banks and this can help offset the negative impacts.

A new chief executive officer is taking control of the bank in 2023, and investors could see a wave of new measures to reduce expenses and drive returns. As long as the global economy avoids a major crash, the bank should deliver another year of solid profits.

Bank of Nova Scotia has raised its dividend twice in 2022 and has allocated excess cash to repurchase shares at the discounted price. These initiatives will benefit shareholders over the long run. Investors who buy BNS stock at the current price can get a 6.3% dividend yield and simply wait for the rebound.

TC Energy

TC Energy (TSX:TRP) has taken a beating in the back half of 2022. The stock is down to $55 at the time of writing from $74 in June. Part of the dip is connected to the broader energy sector pullback, but TC Energy has some company specific issues that have also hurt the share price.

The main concern is the soaring cost of the Coastal GasLink pipeline that TC Energy is building to move natural gas from producers in northeastern British Columbia to a new liquified natural gas (LNG) facility being built on the B.C. coast. Management warned investors about the cost pressures a few months ago and just reiterated the message, saying a new report on the final capital requirements will come out in the first part of next year. This is bad news for investors, but the project is now 80% complete, and TC Energy has already settled its cost-sharing disagreement with LNG Canada. As a result, the pullback in the stock might be overdone.

TC Energy has a $34 billion capital program on the go that will drive revenue and cash flow growth in the coming years. Management intends to monetize non-core assets and is sticking to the plan to raise dividends by 3-5% annually over the medium term. The payout, at the very least, should be safe.

Investors who buy TRP stock at the current price can get a 6.5% dividend yield.

The bottom line on cheap dividend stocks to buy now

Ongoing market volatility is expected in the coming months and additional downside is possible for these stocks. That being said, Bank of Nova Scotia and TC Energy appear undervalued at their current prices and pay attractive dividends that should continue to grow. If you have some cash to put to work, these stocks deserve to be on your radar.

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