2 Unjustifiably Cheap Dividend Stocks in Canada

Description

The rocky road for the broader TSX Index and S&P 500 continues, with the averages now in a bit of a losing streak after gaining some positive momentum to kick off the year. As some reconsider their bear market bottom calls, sentiment could take yet another shift with earnings season right up ahead.

Undoubtedly, we as investors should not pay too much attention to the short-term calls made by strategists. Can markets fall another 10% before bottoming out? Sure, but it's quite notable that many strategists see a bit more pain before a sizeable relief rally. Could it be that the plunge that precedes such a year-end rally doesn't happen and markets just drag their feet the rest of the year? That's also possible, which is why investors should avoid the urge to gain clarity on where stocks are headed over the next few months.

Instead of timing market action over the coming quarters, try to focus on stocks you can buy today that will give you a good shot at above-average results over the next three to five years. Indeed, we've heard the calls that markets don't tend to bottom before a recession strikes.

While that may be the case historically, we're not even 100% guaranteed that a recession will hit. Further, if a recession hits, and it's mild in nature, there's really no telling what markets are looking ahead to right now. Indeed, if too many investors share the same viewpoint, it's hard to gain an edge over the pack.

The good news is you don't need a short-term leg up. As a long-term thinker, you have time on your side. And arguably, that's the best edge that any investor can have when times are choppy!

Currently, I like **Sleep Country Canada Holdings** (TSX:ZZZ) and **Spin Master** (TSX:TOY).

Sleep Country Canada Holdings

Sleep Country is a mattress retailer I'd not sleep on at these valuations. The stock nearly got cut in half over the past year before bouncing back modestly to $24 and change. Though shares could remain under pressure until the worst of the recession hits earnings, I'd not be afraid to inch into a partial position here while shares go for 9.4 times trailing price to earnings (P/E).

The 3.44% dividend yield looks secure and is on the high end of the historical range. Indeed, discretionary stocks tend to do worst in the face of economic turmoil. However, I remain upbeat on the longer-term future of Sleep Country, as it continues to dominate the Canadian sleep industry, which could recover quite quickly once consumers return to spending, whenever this may be.

Spin Master

Spin Master is a toy company that's also sunk lower due to its discretionary nature. Shares trade at 9.14 times trailing P/E. As a mid-cap discretionary, shares have seen no shortage of vicious implosions. Still, with mid-cap territory comes a greater chance to pick up shares at a huge discount to their intrinsic value.

Undoubtedly, Spin isn't the steal it was during its 2020 trough. However, I do like the risk/reward scenario, even as recession headwinds come surging in. Spin continues to make use of its financial position, buying up toy brands while valuations are modest. The latest deal saw Spin acquire robotic tech-leveraging brand HEXBUG. I'm a fan of the deal and think Spin can continue wheeling and dealing to beef up its portfolio through 2023.

Spin's 0.7%-yield dividend may not seem like much. But I think it's poised to grow quickly over the next 10 years.

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