Is This The Cheapest Large Cap In The S&P/TSX Composite (Part 2)?

Description

Who doesn't love a bargain? Whether it's stocks or sweaters, everyone loves a deal. And I am definitely a cheapskate when it comes to stocks. That's why I set up a screen to uncover a list of large cap Canadian stocks trading at what could be very attractive valuations.

In **Part 1** of this series, I outlined the importance of screening to narrow the field and arrive at stock ideas that warrant further research. Here in the remaining parts, the field has been whittled down even further by tightening the screening criteria from **Part 1**. These tightened parameters are outlined in the table below:

Metric	Parameter	Screen 1	Screen 2
Market Capitalization	Greater Than	$5 billion	$10 billion
Price/Book Value	Less Than	2.0	1.5
Price/LTM Norm EPS	Less Than	13	13
LTM ROE	Greater Than	10%	10%

From a pool of 43 that met the $10 billion market cap minimum, three profitable big cap companies that trade at relatively cheap multiples have been revealed. They are listed below:

Company Name	Market Cap (MM)	P/BV	P/E	ROE
Magna International	$11,764	1.31	12.2	16.0%
Barrick Gold (TSX:ABX,NYSE:ABX)	$34,102	1.42	11.0	12.9%
Suncor Energy (TSX:SU,NYSE:SU)	$51,192	1.28	10.1	12.3%

Source: Capital IQ

Let's dig in to the first name on the list to see if it warrants an investment at this time.

Magna International (TSX:MG, NYSE:MGA)

Magna is one of the largest auto parts suppliers in the world. The company's manufacturing capabilities are vast, as is its geographic reach. Built from a modest beginning in Frank Stronach's garage, Magna now employs 117,000 around the world and is one of the great Canadian business success stories.

To determine whether or not Magna's valuation is as appealing as it may appear in the table, we can use historical information to put these numbers into context. Over the past 10 years, Magna's P/BV ratio has averaged 1.1 and been as high as 1.8 and as low as 0.3. At its current level of 1.3, Magna trades above its long term P/BV average and above the middle of its range.

In terms of P/E, Magna has a 10 year average earnings multiple of 13.2 and a range that spans from 10 to 18. At 12.2 Magna is a bit below average, and in the lower portion of its historic range.

These metrics offer a somewhat conflicting tale. What this indicates is that purchasing Magna based on valuation is not as clear as the original screen may have you believe. Magna's stock has been on a tear of late as forecasts for auto sales here in North America are increasingly bullish. With Magna's current valuation being closer to its historical norm vs. an anomaly, and given the near 50% return the stock has had from its 52 week low, I think there will be a better time to buy Magna shares.

*Be sure not to miss the **full list of names that made it through the initial screen** in Part 1 of this series. In addition, take a closer look into **what's plaguing Barrick Gold** and uncover the rationale behind why one of Canada's leading energy companies, **Suncor**, appears in this collection of discounted large caps.*

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Fool contributor Iain Butler owns shares in Magna International (TSX:MG). The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MG (Magna International Inc.)

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