



Are Suncor and Manulife Canada's Best Value Stocks?

Description

Like a lot of other investors, I tend to be more attracted to value stocks than growth stocks.

For me, the reason is simple. I can see value and measure it. I can analyze a company's financials, look at the numbers, and identify value. I can then compare those numbers to that company's competitors, and gauge which company is the better buy. Yes, there are obviously other factors that weigh in on an investing decision, but generally value is the easiest to measure.

Of course, that doesn't mean that growth isn't an important factor in an investor's portfolio. If a company doesn't grow, eventually it'll suffer, no matter how healthy it currently looks. But I just can't *measure* growth. I can look forward in the future and guess on how much a company will grow, but my best guess is just that — a guess.

With that in mind, I decided to look for companies on the TSX that represented the best value. I narrowed down my stock screener to companies that were trading at less than 15 times trailing earnings, had a price-to-book-value ratio of less than 1.5 times, had a market cap of at least \$5 billion, and paid investors a dividend.

Out of all the choices on the TSX, my screener spit out only two names. Obviously, investors need to do more work in choosing their investments than just using a stock screener, but these two companies are a great place to start.

Suncor Energy

The first company suggested by the stock screener is one of Canada's finest energy companies, **Suncor Energy** ([TSX: SU](#))([NYSE: SU](#)). Suncor is a great example of a value stock. The company's trailing price-to-earnings ratio is 14.7, and it has a book value of \$54.60 — a 29% premium to Thursday's closing price. Suncor is almost ridiculously cheap for the quality of its assets.

I have no idea why it could be this cheap. The company recently reported its first-quarter results, and it was the best quarter in the company's history. Operating earnings came in at \$1.22 per share, and cash flow came in at \$1.96 per share. Operating profit beat analysts' expectations by a full 33%.

Suncor's operations are firing on all cylinders.

A huge part of Suncor's revenue comes from the oil sands, a division that is growing nicely. Oil sands revenue was up more than 8% in the first quarter, thanks to increased prices and production growth.

The company is also aggressively returning earnings back to shareholders. It repurchased 8% of its own shares since 2011, and has more than doubled its quarterly dividend during the same time period. The company's current \$0.23 quarterly dividend is only about 30% of its earnings. Look for this stock — which yields 2.2% — to increase its dividend in the future.

Manulife Financial

During the aftermath of the financial crisis, one of the the worst-performing stocks on the TSX Composite was **Manulife Financial** ([TSX: MFC](#))([NYSE: MFC](#)). Low interest rates hurt the company, since it invests the majority of its life insurance premiums in government bonds and other ultra-safe fixed-income assets. It's tough to maximize returns in that environment.

You've got to give credit to the management, then, which has done a nice job of turning things around. Earnings have bounced back, and the company is currently trading at less than 12 times last year's earnings. It's also trading at about 20% above book value, easily the cheapest financial on the TSX by that metric.

Although Manulife is still primarily a life insurance company, it has done a nice job diversifying into other financial services. Its all-in-one mortgage is popular enough to inspire copycat products from other financial companies. Its wealth management business should continue to grow as well, since baby boomers rapidly approaching retirement are stashing away money for their golden years.

After years of needing to raise capital, Manulife is finally in a great position. In fact, the company's capital levels are far over what's required by regulators. Look for it to start giving some of that capital back to shareholders, maybe by increasing its 2.6% dividend. Or, the company could look to acquire a smaller competitor, perhaps expanding its strong position in Asia.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SU (Suncor Energy Inc.)

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