



3 Value Stocks I'd Buy With an Extra \$5,000

Description

Value investors tend to be a bit contrarian by nature. The trick is to find companies that are out of favour with the market but show promise for the long term. Picking beaten-up stocks comes with some risk, so it is best to choose ones that are leaders in their industries.

Here's why I think value investors who have some money sitting on the sidelines should consider **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK), **Manulife Financial Corporation** ([TSX: MFC](#))([NYSE: MFC](#)), and **Cameco Corporation** ([TSX: CCO](#))([NYSE: CCJ](#)) right now.

Teck Resources Ltd.

Canada's largest diversified miner is struggling with low prices for its two core commodities: metallurgical coal and copper. With the stock trading near five-year lows, you might wonder if it is safe to take a shot.

The short-term outlook for metallurgical coal is still bleak. A slowdown in Chinese demand and an increase in supply by producers in Australia have kept steelmaking coal prices near the \$100-per-tonne range for several months. Analysts believe the current price won't hold for long because a third of all producers are unprofitable at these levels.

Teck is a very efficient company. It has undergone an extensive cost-cutting program and has reduced capital spending to maintain profitable operations at its met coal, copper, and zinc divisions.

In Q2 2014, the company had a net realized price of \$111 and a gross margin of 3% in the coal division. Copper prices averaged just \$3.08, but the company still enjoyed margins of 25%. Zinc prices were actually strong and the division is restarting production at its Pend Oreille zinc mine.

Teck pays a dividend of \$0.90 that yields 5%. The dividend is probably safe, so you get paid nicely to wait for the copper and met coal markets to rebound.

Manulife Financial Corporation

Manulife had a tough time during the Great Recession. The company cut its dividend in half and was forced to raise \$2.5 billion in capital to fix its balance sheet. Since then, the company has done a good job to reduce its risk profile and is now focused on growth.

It recently announced plans to purchase the Canadian assets of Standard Life plc for \$4 billion. The deal adds \$60 billion in assets under management and gives Manulife a strong presence in Quebec, where it has struggled to grow its business. The two companies also have an agreement to cross-sell products to each other's clients.

The company recently raised its dividend by 19%. The payout ratio is still only 24% so the company has lots of room to increase the distribution moving forward. Once the Standard Life assets are integrated into the company, the extra cash flow will also be available for further dividend hikes.

Manulife trades at 9.5 times earnings, a significant discount to its peers.

Cameco Corporation

The uranium space has been under intense pressure since the disaster in Japan. Global spot prices dropped below \$30 per pound during the summer and the shares of uranium producers are sitting near 12-month lows.

For long-term investors, this could be the best chance to pick up Cameco's shares. The uranium spot price has bounced and is holding steady around \$35 per pound.

Cameco expects demand for uranium to increase from the current level of 170 million pounds to about 240 million pounds by 2023. Low uranium prices have forced miners to delay expansion projects and shelve plans for new mines. Without new production, there is a strong possibility the market will see a supply shortage in the next few years.

According to analysts, Japan will probably restart 30 of its reactors by 2019. At the same time, Cameco expects 90 net new reactors to come online by 2023 as China and India develop energy projects to supply the growing demand for electricity.

Any indication of a Japanese restart will send uranium stocks rocketing higher as we saw earlier this year.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:MFC (Manulife Financial Corporation)
3. NYSE:TECK (Teck Resources Limited)
4. TSX:CCO (Cameco Corporation)
5. TSX:MFC (Manulife Financial Corporation)
6. TSX:TECK.B (Teck Resources Limited)

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