3 Top Value Stock Picks for 2016

Description

It looks like the year is off to a bad start. U.S. stock markets are down more than 2%. The Canadian market is slightly better, but the TSX Composite is still soundly underwater as I type this.

Long-term investors shouldn't fret about short-term losses. In fact, they should practically be jumping for joy at the prospect of buying solid companies at beaten-up prices. Buying the dips has been a strategy that's worked over the last 50 years. There's no reason to think a similar strategy won't work going forward.

Plus, investors can now add an additional $5,500 to their TFSAs because we're in a new year.

The only question investors have to ask themselves is, "What stocks should I buy?"

We can help you with that. Here are three stock picks for value investors for 2016.

Dream Office

Dream Office Real Estate Investment Trst (TSX:D.UN) gets a lot of attention because of its 13.1% yield. Such a payout is practically a dream come true for yield-starved retirees.

Although the yield does look to be sustainable, there is a chance of occupancy declines in 2016 that could lead to the yield getting cut. Calgary's office market was about as active as a graveyard in the latter half of 2015, and all indications point to 2016 being pretty weak as well. This doesn't bode well for a company that's estimated to have a 99.6% payout ratio in 2016.

Instead, ignore the yield and focus on the underlying assets. Dream owns some of Canada's finest office towers located in the downtown core of major cities. These buildings are high-quality assets you want to own for the long term. Yet shares of the company are selling at $17.11 each, while net asset value is more than $32 per share.

Dream's management estimates the company will generate $2.25 in adjusted funds from operations in 2016. At today's price you're paying just 7.6 times income for the stock. That's the kind of investment I like to make.

WestJet

Like Dream Office, **WestJet Airlines Ltd.** (TSX:WJA) had a brutal 2015 because of exposure to the Albertan market. Shares of Canada's second-largest airline ended the year down nearly 40%.

WestJet is well equipped to handle even an extended downturn. It's a true low-cost operator, boasting a business model that costs about 25% less than **Air Canada** per mile flown. What the company calls ancillary revenue–anything that doesn't come from selling seats–is soaring, jumping some 60% in 2015. And it has more than $1.4 billion worth of cash on the balance sheet–a nice insurance policy for uncertain times.

The company trades at just 6.5 times trailing earnings and still has many avenues of growth. It can expand its regional routes, and it's barely cracked the surface on flights to Europe.

WestJet also pays an attractive 2.8% dividend. It has enough cash on the balance sheet to pay the dividend for more than 20 years at current levels. I think it's safe.

Corus Entertainment

It isn't very often that investors can buy a media company trading at approximately five times trailing free cash flow below book value. This is exactly the opportunity presenting itself in **Corus Entertainment Inc.** (TSX:CJR.B) shares.

The market is concerned that the company is about to lose a big chunk of value as Canadians continue to cut cable. But Corus didn't get the memo. The company's free cash flow actually went up last year compared with 2014. The only reason why earnings were negative is because of one-time asset write-offs.

With **Shaw Communications** buying Wind Mobile, it'll likely be looking to sell some of its media assets in 2016. It's likely that Corus will pick up many of these assets, considering the close relationship it has with Shaw. Remember, Shaw originally spun out Corus back in 2000, and the family still controls the company via multiple voting shares. Corus could easily grow earnings in 2016 on such a transaction, even if the overall advertising market is weak.

Corus pays a 10.5% dividend. Unlike just about every other double-digit yield in the market today, this one is actually sustainable. The company generated $194 million in free cash flow in its fiscal 2015, while paying out just $76 million in dividends. It can comfortably keep its streak of more than a decade of consecutive dividend increases alive.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

TICKERS GLOBAL

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2. TSX:D.UN (Dream Office Real Estate Investment Trust)

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Date
2025/08/28
Date Created
2016/01/05
Author
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