These 3 Value Stocks Are too Cheap to Ignore

Description

Many of the world's most famous investors classify themselves as value investors.

Essentially, a value investor is looking to buy $1 bills for $0.50. This can be accomplished in several different ways. Some investors look at book value, trying to buy assets for less than the cost of replacement. Some look at earnings, trying to buy something with a low earnings multiple. And others look at the quality of a company, believing that buying a great business at a fair price will pay off in spades over time.

I've found that the best value opportunities often come up in stocks people don't like. If the market perceives something as a quality business, it never gets to the point where it's truly cheap. Usually, it's market sentiment that drives a stock down to true value territory.

Investors with iron-clad stomachs can pick up some truly remarkable bargains if they're willing to buy out-of-favour stocks. Here are three names that look especially attractive today.

TransAlta

TransAlta Corporation (TSX:TA)(NYSE:TAC) owns a bunch of coal-fired power plants primarily in the province of Alberta. These are not the kind of assets the market likes, especially after the Alberta provincial government recently passed a plan to phase out all coal-fired plants by the year 2030.

But it isn't all bad news. Shares currently trade hands at $6, which is just a little more than half of book value. Free cash flow for 2016 is expected to come in between $0.86 and $1.03 per share, putting the company at less than seven times projected free cash flow. It isn't often you see a company that cheap.

TransAlta owns 64% of **TransAlta Renewables**, a subsidiary focused on greener assets. That stake alone is worth $1.71 billion based on the market cap for Renewables. The parent company has a market cap of $1.72 billion. This valuation implies the market thinks the coal assets are worthless, even though they generated $393 million in EBITDA in 2015.

Additionally, TransAlta is in talks with the Alberta government on some sort of settlement. The company planned to have several plants still operational past 2030 until the government changed the rules. Any settlement will help mitigate the costs of converting some of the plants over to natural gas, which is good news for TransAlta's already stretched balance sheet.

Transcontinental

Transcontinental Inc. (TSX:TCL.A) essentially owns the printing business in Canada. Some of its revenue comes from the flyers you get in the mail, and it also prints some of Canada's leading newspapers and magazines. It also has a small but growing division that prints labels for food manufacturers.

For a company with such a large market share, it's remarkably cheap. The company earned $3.03 in 2015, although that was helped a little by special items. Free cash flow was even stronger, coming in at $4.35 per share. That puts shares at just 6.5 times earnings and 4.6 times free cash flow, making Transcontinental one of the cheapest stocks in Canada from an earnings standpoint.

Earnings are projected to take a step back in 2016, coming in at $2.41 per share. That still puts the company at only 8.2 times forward earnings.

Genworth

Genworth MI Canada Inc. (TSX:MIC) has a pretty attractive business. It only has one competitor in the mortgage-default-insurance sector, and it's the government. The government dictates the prices and the terms customers pay and will step in to back the company if things get really bad.

Even after rallying some 30% off lows recently set in January, Genworth still only trades at seven times trailing earnings and at less than book value. It also pays a 5.7% dividend, a payout it can easily afford.

Why is it so cheap? Investors are scared Canada's housing bubble will pop in a messy way, bringing some pretty nasty pain to Genworth shareholders. Perhaps these bears have a point, since the company has a book value of just $3.4 billion to cover a total of $184 billion in insured loans. If 2% of loans get wrote off, Genworth is in big trouble.

Just how likely is that? It's hard to say, but keep in mind Genworth has been operating in Canada for well over a decade now. Values have gone up enough that most loans can be recovered without having to write off principal.

CATEGORY

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2. Investing

TICKERS GLOBAL

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nelsonpsmith