



Attention Value Investors: These 3 Stocks Are too Cheap to Ignore

Description

If I were to sum up the mantra of billionaire investor Warren Buffett in one sentence, it would be this: to get rich, investors simply have to buy shares of good companies at fair prices and let compounding do the rest.

But what most people don't know is the Oracle of Omaha actually got his start investing in stocks with ridiculously cheap valuations. Buffett would buy when the stock was trading at bargain basement prices and sell when it came back to fair value. The only reason why Buffett changed his outlook was because he managed too much money to successfully fish in small ponds. He grew too big for his strategy.

The good news for investors today is they don't have to compromise. There are quality stocks available at value prices. They don't have to sacrifice quality to buy something at a great valuation.

Here are three stocks that this value investor has his eye on.

Empire

Empire Company Limited ([TSX:EMP.A](#)) is the parent company of Safeway and Sobeys, two chains that combine to be Canada's second-largest grocer. The two banners employ more than 125,000 Canadians over more than 1,500 grocery stores and 350 retail fuel locations. It also owns a 41.5% equity interest in **Crombie Real Estate Investment Trust**.

When compared to its rivals, Empire trades at a much cheaper valuation. It trades at a price-to-sales ratio of just 0.16 compared to 0.67 for **Loblaw** and 0.84 for **Metro**. On a trailing 12-month basis, Empire trades at just 6.5 times its operating income (excluding any special items), while Metro trades at 14.7 times and Loblaw trades at 19 times operating income.

Additionally, Empire trades at only 83% of its book value, while its rivals trade between two and four times their respective book values.

Empire shares are down nearly 30% over the last year as concerns about its Safeway division

encourage investors to sell off the stock. Safeway is an upscale chain with concentration in areas hit hard by oil's decline. When oil recovers, customers who left in search for cheaper groceries will come back.

Morguard

Morguard Real Estate Inv. ([TSX:MRT.UN](#)) is the owner of 50 retail, office, and industrial properties across Canada with approximately one-third of its portfolio in Alberta. It has some \$2.9 billion in assets under management.

Like many other stocks with exposure to Alberta, Morguard hasn't had a great year; shares have fallen nearly 20%. But the company did generate \$1.72 per share in funds from operations in 2015, a slight improvement from 2014. That puts shares at just 8.2 times funds from operations, which is about as cheap as the REIT sector gets. Additionally, Morguard trades at just 54% of its book value.

Morguard pays a 6.8% dividend with a payout ratio of 75% of adjusted funds from operations. Even if the company loses some revenue from a weakening Alberta economy, it should still be able to afford the generous payout.

WestJet

There's a common theme with the three companies featured in this article. Like the others, **WestJet Airlines Ltd.** (TSX:WJA) has seen its share price decline in the last year because of concerns about the Alberta economy.

Investors who look past a year or two of weakness see a bright future for Canada's second-largest airline. The company is comfortably profitable; it hasn't posted a losing quarter since 2010. It can easily afford the 2.9% dividend. Shares trade at just 6.7 times trailing earnings. Revenue from ancillary items—things like fees for checked baggage and WiFi—are going through the roof on a per-customer basis.

And perhaps most importantly, WestJet's low-cost business model means it has costs of 25% less than **Air Canada** per mile flown.

WestJet has the balance sheet strength needed to survive these hard times. At the end of 2015, it had more than \$1.2 billion in cash on its balance sheet. Instead of just sitting on that cash, management is making smart moves, like buying back undervalued shares. Over the past 15 months, the company has eliminated 4.6 million shares, which works out to a 4% overall reduction.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMP.A (Empire Company Limited)
2. TSX:MRT.UN (Morguard Real Estate Investment Trust)

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