# Value Investors: These 3 Stocks Are Incredibly Cheap

## Description

The practice of value investing is a simple one: investors try to buy $1 worth of assets for $0.50.

There are a number of ways to do that, of course. One way is to buy discounted earnings, usually in the form of free cash flow. A tiny price-to-earnings ratio will get the attention of many investors, while a similarly cheap price-to-free cash flow ratio won't.



The other way is to buy cheap assets. Book value is usually where asset-based investors start, but we must dig deeper to really get the sense of the true value of a company's assets. Often, thanks to depreciation and amortization, the value of property, plant, and equipment assets are understated. But at the same time, goodwill and intangibles are often overstated.

The Holy Grail for investors is when we find stocks that are undervalued from both an assets and earnings perspective. These are the kinds of stocks a value investor wants to own.

In a world where seemingly every stock is expensive, finding cheap value stocks can feel like looking for a needle in a haystack. They are out there, however. Here are three that look particularly attractive today.

**Capital Power**

**Capital Power Corp.** (TSX:CPX) is the owner of 18 different power plants that generate some 3,200 megawatts of power on an annual basis. The company also has 700 megawatts of development in Alberta and Kansas that are close to operational.

The reason why Capital Power shares are cheap is because of its exposure to coal-fired power in Alberta. The company owns six coal plants in Alberta that were scheduled to close between 2036 and 2061. Now that the government has declared the province will be coal-power free by 2030, investors are concerned about Capital Power's assets.

The good news is the company is likely to get a payout from the government to avoid what it calls "unnecessarily stranding capital," which management thinks will be the equivalent of the book value of the affected plants on the 2030 deadline date. We're talking a potential payday of close to $1 billion.

In the meantime, investors are buying shares of a company that trades comfortably under book value and is less than six times free cash flow. It also pays a 7.7% dividend that management expects to raise annually through at least 2018.

**Empire Company**

**Empire Company Limited** (TSX:EMP.A) is Canada's second-largest grocery chain, owning more than 1,500 stores under the Sobeys, Safeway, and FreshCo banners, among others. It also owns 350 fuel locations and approximately 40% of **Crombie REIT**.

Empire made headlines in 2014 when it agreed to acquire Safeway's western Canadian stores–a deal that hasn't gone well. Alberta's economy started to tank shortly after the ink dried, causing customers to avoid upscale Safeway stores for cheaper options.

On just about every financial metric, Empire is cheaper than its competitors. It trades right around book value, while other Canadian grocers trade between 1.5 and two times book. And if you exclude the big non-cash write-off in its most recent quarter, shares trade at less than 13 times trailing earnings compared to closer to 20 times for its major competitors.



Empire's dividend of 1.9% is also some 20% higher than its two major competitors.

**Corus Entertainment**

With its recent acquisition of **Shaw Communications's** media empire, **Corus Entertainment Inc.** ( TSX:CJR.B) has transformed itself into a television powerhouse. It owns many of Canada's top specialty channels including Food, Showcase, Teletoon, History, HGTV, Treehouse, YTV, and plenty of others. It also owns 39 radio stations and a global content business.

The new Corus is expected to generate between $300 and $350 million in free cash flow annually once synergies are captured. That's free cash flow of between $1.58 and $1.85 per share, which puts the company's shares somewhere between 7.1 and 8.4 times free cash flow. That's incredibly cheap for a market leader.

Corus also pays investors a $0.095 per share monthly dividend, a yield checking in at 8.6%. This is a nice consolation prize for investors waiting for the company's valuation to creep back up to normal levels.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. TSX:CJR.B (Corus Entertainment Inc.)
2. TSX:CPX (Capital Power Corporation)
3. TSX:EMP.A (Empire Company Limited)

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