

## Value Investors: Check Out These 3 Cheap Financial Stocks

### Description

Many investors choose to get their financial exposure through Canada's dominant banks.

It's easy to see why. Our largest banks own approximately 80% of the domestic market and have diversified into other markets, most notably the United States. Canada's banks aren't just institutions that do savings and loans; they're full-service financials that offer wealth management, capital markets, and other services like insurance. They're truly integrated, in other words.

But that doesn't mean there aren't opportunities in some of Canada's other financials. There are plenty of niche financial services that exist quite profitably alongside our juggernaut banks. Some of these financials trade at very cheap valuations, which should be enticing to value investors.

Here are three particularly attractive financial companies.

### Power Financial

**Power Financial Corp** (TSX:PWF) is a holding company with large stakes in **Great-West Lifeco**, **IGM Financial**, and a European holding company called Pargesa that has large positions in a number of equities on that continent. As is the case with many holding companies, investors can pick up Power Financial shares for approximately 20% less than the underlying value of the assets.

If that discount isn't enough to get you excited, here are a couple of more reasons.

Shares are currently trading hands close to 52-week lows even though earnings haven't been so bad. In the company's last year, it earned \$2.80 per share and analysts estimate it'll earn \$3.02 per share in 2016. That puts shares at just 10.65 and 9.81 times earnings, respectively.

Power Financial also pays a great dividend with a payout of \$0.39 per share each quarter. That's good enough for a 5.3% yield, which is fantastic in a zero interest rate world.

### Laurentian Bank

**Laurentian Bank of Canada** ([TSX:LB](#)) is a Quebec-based bank that has carved out a nice niche in La Belle Province. It has more than \$40 billion in assets, some 150 different branches, and has diversified away from Quebec through its B2B subsidiary, which lends across Canada through a network consisting of mortgage brokers and other financial sector partners.

Laurentian has a couple of things going for it compared to its bigger peers. It trades under tangible book value—something that's almost unheard of in Canadian banking. Most of Canada's "Big Five" banks trade between 1.6 and two times book value.

It also pays a very generous dividend of nearly 5%. It has grown both its payout and its earnings consistently throughout the last decade. Since 2011 dividends have increased from \$0.36 per share

each quarter to the current value of \$0.60. That's impressive growth for a company many write off because it has larger competitors.

Finally, Laurentian has much better growth potential than its larger peers. It recently spent \$135 million to buy Canadian equipment financing company CIT Group, a move that is projected to increase the bottom line by about 5%. No other bank can move its bottom line so much with only \$135 million.

## **Canaccord**

**Canaccord Genuity Group Inc.** ([TSX:CF](#)) has operations in both Canada's capital market sector and wealth management. The company is reeling because of general weakness in the economy, which has spread to capital markets. Companies just don't go public or attempt many takeovers in this type of environment.

The company recently eliminated its dividend and took some nasty write-offs, leading to some ugly headline earnings numbers. But if you believe the company can get back to previous levels of profitability, shares are very cheap.

Look at it this way. Shares trade hands at \$4.26 currently. But it made \$0.39 per share in 2014, \$1.20 per share in 2011, and \$0.69 per share in 2010. Not surprisingly, shares were much higher when those kinds of earnings were being recorded. Additionally, the company only posted two years out of the last 10 with negative free cash flow. In short, these funks are normal and shares tend to recover from them.

Investors looking for value in the financial sector don't have to look very far. These companies don't have the kind of following that Canada's largest banks enjoy, but they have plenty of other things going for them—especially nice valuations.

## **CATEGORY**

1. Bank Stocks
2. Dividend Stocks
3. Investing

## **TICKERS GLOBAL**

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2. TSX:LB (Laurentian Bank of Canada)

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