Investors: You Can't Ignore These 3 Cheap Value Stocks

Description

In today's expensive markets, investors seemingly can't go a day without hearing the dreaded B word. Many people seem to think stocks are in a bubble, especially those folks who specialize in buying cheap assets.

As a fellow value investor, I feel their pain. I'm the first to admit that finding cheap stocks isn't nearly as easy as it was in the past. Heck, even earlier this year I was finding plenty of cheap companies as the TSX melted down in January and February. Things have certainly changed quite a bit in just a few short months.

This leaves investors with a choice. They can either be content to wait out opportunities on the sidelines, potentially missing out on further upside, or they can put money to work today in companies that are cheap, just not as cheap as they'd like.

Personally, I'm choosing the latter route. The risk of opportunity costs is just too high for me to sit on a large amount of cash.

Here are three cheap stocks I'm taking a closer look at and would recommend other investors do the same.

Manulife

Manulife Financial Corp. (TSX:MFC)(NYSE:MFC) is Canada's largest life insurance company, a top-10 life insurer worldwide, and it has substantial wealth management and banking divisions. It has more than 20 million worldwide customers with operations in Canada, the United States, Japan, and other Asian countries, including China.

Earnings are struggling a bit as the company faces the challenges of a zero interest rate world affecting investment returns, but Manulife is still solidly profitable today, earning $1.26 per share over the last 12 months. That puts shares at just 13.5 times trailing earnings–a fairly cheap number.

Manulife is also undervalued on a couple of other metrics, too. Book value per share is $21.14, while the current price is $17.01. Both of Manulife's big peers in Canada both trade at premiums to book value. The company also pays a 4.4% dividend, which is the highest the yield has been since 2012.

Artis

Like many of its peers, **Artis Real Estate Investment Trust** (TSX:AX.UN) is suffering because of exposure to western Canada's office market. Approximately 50% of the company's portfolio of 26.2 million square feet of space is office towers with more than 10% of the entire portfolio in Albertan office towers.

But results continue to be solid. Occupancy was at 94.3% (including commitments) at the end of its most recent quarter. Rents continue to creep up in non-Calgary markets. And, most importantly, funds from operations, a key profitability metric for REITs, is still good, coming in at $0.76 per share for the first six months of 2016. That puts the company at just 8.4 times projected 2016 earnings.

Shares also trade at a 27.8% discount to book value, which is $17.60 per share. Yes, there may be concerns that book value could come down due to the inevitable write-down of Alberta-based property, but investors can at least take comfort in the trust having a payout ratio of approximately 70%–a very conservative number for a company yielding 8.5%.

Capital Power

Although **Capital Power Corp.** (TSX:CPX) shares have moved up nearly 20% since the beginning of the year, they're still undervalued.

Capital Power owns 18 power plants across North America, which collectively generate some 3,200 megawatts of power. The issue is that most of this power generation is coal fired and located in Alberta, which isn't a good combination. Alberta's ruling NDP government recently announced a plan to rid the province of coal-fired power by 2030.

But things shouldn't end up too badly for Capital Power. The company is hoping to negotiate a settlement for book value of its assets, while shares currently trade hands at about 75% of book. And the company pays a 7.4% dividend that it can easily afford on a free cash flow basis. It can still generate a lot of cash flows between now and 2030.

Conclusion

Manulife, Artis, and Capital Power all offer investors undervalued shares, dividends that are easily affordable, and nice potential for capital gains going forward. What more can investors ask for?

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:AX.UN (Artis Real Estate Investment Trust)
3. TSX:CPX (Capital Power Corporation)
4. TSX:MFC (Manulife Financial Corporation)

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