Investors: Don't Miss Out on These 3 Ridiculously Cheap Financial Stocks

Description

Friday wasn't a good day for most stock markets across the world as fears about increasing interest rates sent stocks reeling. At home here in Canada, the TSX Composite surrendered more than 260 points, ending the week at 14,539.88.

Bearish investors took this sell-off and ran with it, warning investors we could be at the precipice of another nasty stock market crash. These folks point at an extended bull market–especially in the United States–that they feel is beginning to run out of steam.

I've never worried much about overall markets. All I'm concerned with is finding undervalued individual securities. As long as I'm buying at the right price and can afford to be patient, I'm confident it'll work out. Predicting the value of overall markets is hard. Finding cheap stocks is much easier.

One sector that looks cheap today is financial services. Here are three companies investors should be checking out today.

Power Financial

Power Financial Corp. (TSX:PWF) has a mutual fund problem.

The company holds stakes in **Great-West Lifeco**, **IGM Financial**, and Pargesa, a holding company that owns prominent European equities. Together, these stakes add up to a value of close to $30 billion, yet the company only has a market cap of just over $21 billion.

Although Power Financial has always traded at a discount to the sum of its parts, I believe that discount is wider than average because of its exposure to IGM Financial, the mutual fund giant. As more and more investors realize expensive mutual funds aren't the ideal way to invest passively, IGM Financial will see its earnings decline.

But there are plenty of things IGM Financial can do to adapt. Cutting fund fees is an easy choice, and the company has done a nice job of diversifying its product offerings into things like mortgages and GICs. And remember, Power Financial's stake in IGM is relatively small compared to its ownership of

Great-West Life.

Plus, investors are getting a stock trading at just over 11 times trailing earnings and that pays a 5.2% dividend. That kind of valuation is hard to find in today's market, and that dividend is very attractive too.

Goeasy

Although shares of alternate finance company **Goeasy Ltd.** (TSX:GSY) have nearly tripled in the past five years, there's ample evidence it isn't done yet.

Goeasy has two distinct businesses. The first is the lease-to-own furniture business, which finances computers, appliances, and other home furnishings for borrowers with crummy credit ratings. There's also the financial services arm that gives unsecured loans to folks who would normally have no other option than to look at payday loans.

Because Goeasy dominates both of these businesses in Canada, it can get away with charging rates in excess of 40% annually. That might be bad for customers, but it's great for investors. Even after accounting for write-offs and other expenses, the company earned $2.25 per share in profits over the last 12 months. That gives it a P/E ratio of under 10.

Most stocks trading at less than 10 times earnings have stagnant or declining revenue. Not Goeasy. Revenue for 2014 was $259 million, 2015 was $304 million, and analysts predict 2016 will see a top line of more than $350 million. Oh, and the company also pays a 2.3% dividend.

Manulife Financial

If interest rates are indeed headed higher, **Manulife Financial Corp.** (TSX:MFC)(NYSE:MFC) will likely be a major beneficiary.

A trend towards higher interest rates isn't the only reason to like Manulife. The company has transformed itself into a financial services powerhouse, including offering banking products and wealth management. As it continues to expand further into Asia, look for it to replicate its success here in Canada on that side of the Pacific.

Shares trade comfortably under book value, the company can easily afford its 4.1% dividend, and the trailing P/E ratio is a very reasonable 14. Look for the valuation to go up as investors get more evidence rates will increase.

Conclusion

The stock market is filled with stocks trading at more than 20 times earnings and with dividend yields that have fallen to unattractive levels. These financials offer nice yields, cheap valuations, and all have potential catalysts that could lead to a higher share price.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/11
Date Created
2016/09/12
Author
nelsonpsmith