2 Value Stocks You Can Bank on

Description

Since the financial crisis, value stocks have earned a bit of bad reputation. That's steered investors away from this once popular investment strategy and into the waiting arms of growth investing, despite statistics showing that value stocks outperform over longer periods of time.

Value stocks rock, and while they might not be as sexy as their growth-stock brethren, their performance more than makes up for any lack of enthusiasm from retail investors.

Over the past five years the **iShares Canadian Value Index ETF** (TSX:XCV) generated an annualized total return of 7.4%–203 basis points higher than the **iShares Canadian Growth Index ETF** (TSX:XCG). The proof is definitely in the pudding.

For those investors who care about making money rather than boasting about your stocks at weekend cocktail parties, you might want to consider these two stocks from the XCV. To qualify, a stock must have a return on equity of at least 10%, a price-to-book of no more than three, and a market cap greater than $1 billion.

Finding two that qualify isn't as easy as it sounds.

Value stocks: iShares Canadian Value Index ETF

Company	Market Cap	ROE	P/B
Shaw Communications Inc. (TSX:SJR.B)(NYSE:SJR)	$13.1B	23.2%	2.0
Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM)	$39.9B	19.7%	1.8

Source: Morningstar

I recently wrote about why I think CIBC is the bank investors should bet on. At the top of my list of reasons was the fact that you can buy its stock at a valuation that's 25% lower than its four biggest peers while also getting the highest yield of any of the Big Five. In addition, its return on equity, which many investors consider an important prerequisite for buying any stock, is higher than any of the other major banks in this country.

Another reason to like CIBC is its $4.9 billion acquisition of PrivateBancorp, Inc., a Chicago middle-market commercial bank that ultimately could generate 25% of the bank's overall earnings from high-net-worth investors in major cities in the Midwest and in other parts of the U.S. CICB is late to the banking game in the U.S., so this will definitely help it catch up.

It might be the least popular of the Big Five, but when it comes to value, CIBC's stock is the one to buy.

My second value-stock recommendation from the XCV is Shaw Communications, the western Canadian cable and broadband company; it's in the middle of fully integrating Wind Mobile into its business model.

Fool.ca contributor Nelson Smith recently reminded investors that Shaw's sale of its media assets and foray into the wireless sector could be a big buzzkill for dividend investors due to the cash strain upgrading Wind Mobile's network to 4G LTE; company estimates suggest costs could run at $250 million or more, reducing its free cash flow available to pay dividends.

While dividend investors should be concerned about how this affects their future dividend increases, value investors have their eyes firmly on the end game. Right now, Shaw's stock is trading at two times book value, while its peers' stocks are 30-60% more expensive on a price-to-book valuation.

Once Wind starts making a bigger contribution to the bottom line, Shaw shareholders will see free cash flow increase from the $300 million or so that it's currently generating on an annual basis.

More importantly, the addition of Wind Mobile allows Shaw to better compete against its peers that already own wireless networks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:SJR.B (Shaw Communications)

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