



Value Investors: These 3 Stocks Are Still Incredibly Cheap

Description

As the market shrugs off Donald Trump's election and rises to new highs, value investors everywhere have the same complaint: they can't find anything cheap to buy.

I feel their pain. A few years ago, cheap stocks were everywhere, especially in the small- and mid-cap parts of the market. These days? They're out there, but they're few and far between.

The good news is there are still a few decent value stocks out there. Let's take a look at three of my favourites.

Extendicare

Extendicare Inc. ([TSX:EXE](#)) has done the dirty work. Now it's up to the market to give it the respect it deserves.

Two years ago, the company was struggling with U.S. operations that were plagued by an oversupplied market and constant litigation risk. Management then sold that part of the business, investing the cash into expanding its home health division as well as acquiring a series of retirement homes here in Canada.

These moves have been quite successful. Through the first nine months of 2016, the company reported adjusted funds from operations of \$0.60 per share versus results of \$0.38 per share last year. That translates into projected earnings of \$0.80 per share for 2016, giving the company a P/E of just over 11.

Compare that to its major rival, **Chartwell Retirement Residences**, which trades at 17 times 2016's expected adjusted funds from operations.

Back in 2013, Extendicare cut its monthly dividend from \$0.07 to \$0.04 per share. Investors these days don't have to worry about that. In fact, with a payout ratio of approximately 60%, the next move by Extendicare could be a dividend increase. Shares currently yield 5.3%.

Capital Power

Investors looking for sustainable income on the cheap should check out **Capital Power Corp.** ([TSX:CPX](#)).

The company is nicely valued on a number of metrics. It trades at approximately 25% under book value. It generated approximately \$250 million in free cash flow over the last 12 months, putting shares at just 7.5 times that metric. And it trades at just 1.5 times sales versus 2.9 times sales for rival **Canadian Utilities**.

Capital Power has one big issue weighing down shares, and that's Alberta's plan to rid the province of coal-fired power by 2030. Capital Power has a number of facilities that would be impacted by the legislation.

But things aren't so bad. The company will get compensation from the government for these plants—cash that can be reinvested into other growth projects. And they'll continue to generate cash flow until forced to shut down.

The company also expects Alberta's floating power prices to recover soon, thanks to supply being taken off the market. Even if that doesn't happen right away, management has done a nice job locking decent prices for the next couple of years.

Capital Power pays a 7.7% dividend that is easily covered by free cash flow.

Transcontinental

Transcontinental Inc. ([TSX:TCL.A](#)) is Canada's largest commercial printer. It prints everything from newspapers to flyers to food packaging labels.

Investors are concerned much of Transcontinental's business is about to go away. Fewer people are buying newspapers, and digital advertising will soon replace flyers.

Perhaps, but Transcontinental isn't really feeling the effects. Profit in its most recent quarter was up versus last year. The company continues to close plants and make production more efficient. And management is active in making acquisitions that diversify the revenue base away from these old-school sectors.

Investors who worry about the demise of flyers are wrong. There's a reason why flyers keep showing up in your mailbox: they still work.

Transcontinental is a cash flow machine. It trades at less than eight times trailing earnings, which is about as cheap as stocks get. And while investors wait for the market to give the company a higher valuation, they get paid a 4.1% dividend.

The bottom line

Extendicare, Capital Power, and Transcontinental all offer investors great value in today's market. Value investors, take notice.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:EXE (Extendicare Inc.)
3. TSX:TCL.A (Transcontinental Inc.)

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Date

2025/08/24

Date Created

2016/11/14

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