



Attention Value Investors: These 3 Stocks Are Incredibly Cheap

Description

There's a simple reason why most of the world's greatest investors use a value approach.

It works.

According to a study by U.S. investment company Fidelity, a portfolio invested in the S&P 500 from 1990 through 2015 would have returned 9.29% annually. That compares to a return of 10.49% for mid-cap value stocks or 10.19% for small-cap value stocks.

That doesn't seem like much, but look at it this way: \$10,000 invested in the S&P 500 on January 1, 1990, would have been worth \$100,721 at the end of 2015. The same investment in small-cap and mid-cap stocks would be worth \$124,669 and \$133,660.

Who couldn't use an extra \$30,000?

The beautiful thing about value investing is, it shouldn't be difficult for a regular investor to beat those numbers. That's because those studies choose every value stock. Individual investors can pick and choose, putting their cash to work in the best prospects.

There are many great opportunities in today's market. Let's take a closer look at three of Canada's finest, cheapest value stocks.

Empire Company

It's hard to run a higher-end grocery store with a focus on western Canada in 2017.

The economy isn't the only thing keeping **Empire Company Limited** ([TSX:EMP.A](#)) shares in the doghouse. Management has struggled for years to properly integrate the big Safeway acquisition. Canada's retail environment keeps getting more competitive, and quarterly earnings kept disappointing — badly.

The company has been making a number of positive changes, including bringing in a new CEO and

bringing down prices in store. Alberta's economy should also come around again. It can't be much worse than 2016.

In the meantime, investors who get in today are buying shares of a company that trades at a significant discount to its peers. No matter what ratio you look at, Empire shares are cheaper than competitors'. And investors are getting a 2.5% dividend to wait, which is quite attractive for the retail sector.

Morguard REIT

There are a number of REITs that trade for a nice discount versus the value of their assets. But none are quite as cheap as **Morguard Real Estate Inv.** ([TSX:MRT.UN](#)).

Morguard is a medium-sized REIT which owns a little less than \$3 billion in assets. Its portfolio consists of 49 properties in six provinces with a total square footage of 8.7 million square feet. The company also pays a \$0.08 per share monthly dividend — good enough for a 6.4% yield. It hasn't missed a dividend since 1999.

The dividend is just half the story. Shares are also incredibly cheap on a price-to-book value ratio. Book value is close to \$26 per share, while investors are only paying \$15.10. That's the equivalent of paying 58 cents for a dollar worth of assets. You'd be a chump to miss out on that.

TransAlta

Although **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) shares are up 27% in the last six months, this stock is still incredibly cheap.

TransAlta has generated \$363 million in free cash flow over the last year. That puts shares at just six times free cash flow, which is one of the best valuations in the market. It's likely free cash flow could increase next year thanks to a \$39 million payment from the Alberta government (to compensate the company for the government-imposed shuttering of all coal-fired plants in the province by 2030) as well as the potential for better spot electricity prices.

Or we can look at it this way.

TransAlta owns 64% of **TransAlta Renewables**, which has a market cap of \$3.31 billion. That stake alone is worth \$2.11 billion. TransAlta's market cap is currently \$2.20 billion. Investors are essentially getting all of TransAlta's assets for free.

And if that's not enough for you, TransAlta also has a book value of \$3.4 billion.

The bottom line

There's just one problem with value investing. You've got to buy stocks when nobody else wants them. That's certainly the case with Empire Company, Morguard, and TransAlta. But if you do, there's potential for huge upside. I think we'd all like some of that.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

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TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:EMP.A (Empire Company Limited)
3. TSX:MRT.UN (Morguard Real Estate Investment Trust)
4. TSX:TA (TransAlta Corporation)

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