# Investors: Check Out These 2 Undervalued High-Quality Stocks

## Description

There are a few things that these two companies I'm about to talk about have in common. They both have strong cash flow growth, strong balance sheets, strong margins, and healthy returns on equity. And, of course, both of these stocks, in my view, do not reflect the strength of their businesses and the strength in their financials.

**Technologies Interactive Mediagrif Inc.** (TSX:MDF)

First, we have Mediagrif, which provides e-commerce solutions to consumers and businesses and owns various web and mobile platforms. It was founded in 1996 and has grown to generate $73 million in revenue and $15 million in net income.

This is not a big company by any means with a market capitalization of $275.8 million and an average daily trading volume of 7,000 shares. However, I think it is useful to at least follow such a company that is showing excellent results and a business that has good potential.



Mediagrif has been able to achieve operating margins of 30%, net margins of 20%, and an ROE of 13%. It has seen a cumulative average growth rate in cash flow of 16.7% since 2011 and a cumulative average growth rate in earnings per share of 14.6%.

The stock trades at a P/E ratio of 17 times and has a dividend yield of just over 2%.

**Western Forest Products Inc.** (TSX:WEF)

Looking at Western Forest Products's financials over the last five years, we can see a picture of a company that has grown its revenue, improved its margins, and has strong cash flows , even though all while the lumber market has been tough to say the least. And now the company is faced with an improving outlook, a cheap stock, and a business that has been very effectively managed.

Management's stated goal is to "maximize product margins while increasing sales volumes." Gross margins have increased over the years and now stand at 19.73%, and the EBIT margin currently sits at 8.7%. Furthermore, the company's ROE is roughly 15%. The company has been free cash flow positive for many years now, and its balance sheet is quite strong with a debt-to-capitalization ratio of just 10%.

As far as the future goes, the company is seeing improving demand from the U.S. as the housing market and remodeling activity are both recovering. In China there is a shortage of domestic fibre, so the country will have to rely more on imports. Rising wealth in China makes it a good market that is expected to see strong demand over the long term. Lastly, Western Forest Products is seeing strong demand from Japan as U.S. exporters are increasingly selling their products to U.S. customers.

Western Forest Products trades at a P/E ratio of 11 times and currently has a dividend yield of 4.2%.

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