Value Investors: These 3 Stocks Are Absurdly Cheap

Description

As the TSX Composite bumps up against all-time highs, value investors everywhere are collectively hanging their heads. There's nothing to buy.

My favourite example of this recently came from Value Investors Club, a noted hangout for hedge fund managers, wealthy folks, and overall intelligent investors — all with a value focus. When they log in, members are asked how favourable the current investing climate is for value stocks. They can choose one of three options: they're either finding many value-priced stocks, an average amount, or a few.

Recent results haven't even been close: 85% of respondents said they're finding a tiny amount of value opportunities; 13% said value pickings were more or less average; a mere 2% said today is a great environment for cheap stocks. And, to be honest, I think those people were just toying with the survey.

But just because markets are expensive doesn't mean there are no opportunities out there. They're around. You just have to look a little harder. Here are three interesting opportunities that are ridiculously cheap.

Yellow Media

The last five trading days have not been kind to **Yellow Media Ltd.** (TSX:Y); shares have fallen 40%.

What happened? Two words: crummy earnings. The company's full-year 2016 results saw total revenues decline 1.4%. It truly was a tale of two divisions, however, with digital revenues up 14% and print revenues down 23.6%. EBITDA margins were 28.8% for the year, versus 31.4% in 2015. In short, things are still going in the wrong direction.

Everybody knows the traditional Yellow Pages business is going away, but it's being replaced by some interesting digital assets. The company owns many of Canada's top websites, including RedFlagDeals, ComFree, Canada411, and 411.ca, as well as its Yellow Pages–branded properties. It has also quietly become a digital marketing powerhouse.

The 40% decline means shares are incredibly cheap on a price-to-free-cash flow basis. The company did $94.6 million in free cash flow in 2016. It has a current market cap of $307.4 million. That puts shares at just over three times free cash flow — one of the cheapest valuations I've ever seen.

Morguard

Although shares have moved up smartly in the last three months, **Morguard Real Estate Inv.** (TSX:MRT.UN) is still one of the cheapest REITs in Canada. Heck, it's one of the cheapest companies in general.

Let's start with book value. The company currently values its portfolio of 49 office, industrial, and retail properties at $1.56 billion, net of debt. It has a current market cap of $942 million. That means shares are trading at just 60% of book value. You're getting 40 cents for free for every dollar you invest!

The trust is even cheap on an earnings basis. Funds from operations for 2016 were $1.81 per share on a fully diluted basis, putting shares at just 8.5 times that metric. Those strong earnings ensure the company's $0.08-per-share distribution continues to get paid without a hitch. The current yield is 6.2%.

TransAlta

There are a lot of fancy ways to value **TransAlta Corporation** (TSX:TA)(NYSE:TAC) that factor in things like the company's exposure to coal-fired power in Alberta or its admittedly bloated debt load.

I've never been a fan of making things complicated. I want value that hits me over the head with its obviousness. I'll save the deep analysis for the professionals.

TransAlta owns 64% of **TransAlta Renewables**, which also trades on the TSX. Renewables has a market cap of $3.37 billion. TransAlta's stake alone is worth $2.16 billion. Yet TransAlta has a total market cap of $2.12 billion. Investors are getting the company's entire legacy business *for free*.

That legacy business might be struggling, but it has plenty of earning power left. Through the first three quarters of 2016, coal-fired power alone generated nearly $200 million in EBITDA. The company is projected to earn between $250 and $300 million in free cash flow in 2016 once results are made official in March. And remember, TransAlta has a plan to convert many of its coal-fired plants to natural gas — all paid for by the Alberta government.

The bottom line

Even though markets are hardly cheap right now, there are still pockets of value out there. TransAlta, Morguard REIT, and Yellow Media are all incredibly cheap in an expensive world. Value investors, take notice.

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TICKERS GLOBAL

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2. TSX:MRT.UN (Morguard Real Estate Investment Trust)
3. TSX:RNW (TransAlta Renewables)
4. TSX:TA (TransAlta Corporation)
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