Investors: Ditch These 3 Expensive Stocks for These 3 Cheaper Options

Description

Value investing can be incredibly hard. Or it can be quite simple.

Investors spend countless hours trying to figure out the intrinsic value of a stock, looking at everything from its competitive advantage to its management team. I've even seen investors cruise career satisfaction websites, trying to get a sample of the company's culture.

These are all valuable research tools, but it doesn't have to be that complicated. All investors need to do is cycle out of expensive stocks into cheaper options. Then, when the cheaper options become expensive, repeat the process. It truly can be that simple.

Here are 3 richly-valued Canadian stocks I would consider ditching, and 3 worthy cheaper substitutes.

Ditch: Rogers Communications
Buy: Telus Corporation

Both **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) and **Telus Corporation** (TSX:T)(NYSE:TU) are excellent businesses with sizable moats, sharp management teams, and excellent dividends and dividend growth history.

There's just one problem – Rogers is noticeably more expensive than Telus.

Let's first start with the price-to-earnings ratio. Rogers shares currently trade at 36.5 times trailing earnings, mostly due to a couple of one-time charges. If we strip out those charges, we get net earnings of approximately $2.75 per share, which puts Rogers at 22.6 times trailing earnings.

Telus, meanwhile, trades at 20.3 times earnings after you account for its own one-time charges.

default watermark

The difference is more pronounced if we look at forward P/E ratios. Rogers trades at 19.4 times analyst expectations for 2017, while Telus trades at a much more reasonable 16.7 times projected earnings. In addition, Telus has a lower price-to-book value ratio while maintaining a stronger balance sheet than Rogers. It has a better dividend today and stronger dividend-growth history behind it as well.

Telus shares currently yield 4.2%, while Rogers offers a 3.1% yield.

Ditch: Chartwell
Buy: Extendicare

Chartwell Retirement Residences (TSX:CSH.UN) and **Extendicare Inc.** (TSX:EXE) are two of Canada's largest owners and operators of retirement and long-term care homes. Chartwell owns more than 26,000 suites, while Extendicare is smaller, with just under 10,000 total beds. In addition, approximately 30% of Extendicare's earnings come from its home health division.

Chartwell is well-known as the industry leader, and so investors must pay a premium to own it. In 2016, the company did $0.85 per share in adjusted funds from operations (AFFO), giving it a price-to-AFFO ratio of 18.1. Extendicare did $0.755 per share in AFFO, which gives it a much more reasonable price-to-AFFO ratio of 13.2. Besides, Extendicare should report better results in 2017 as acquisitions start hitting the bottom line.

default watermark

Extendicare also offers a far better dividend. The current payout is 4.8%, versus Chartwell's yield of 3.8%. Chartwell has the better dividend-growth history, but Extendicare's low payout ratio means it's poised to increase its payout.

Ditch: Fortis
Buy: TransAlta

I'm the first to admit there's a lot to like about **Fortis Inc.** (TSX:FTS)(NYSE:FTS), including its diverse asset base, dividend history, and relentless expansion. There's just one problem. Nobody will argue shares are cheap.

TransAlta Corporation (TSX:TA)(NYSE:TAC), meanwhile, might be one of the cheapest stocks on the Toronto Stock Exchange. Besides trading at just 5.1 times 2016's free cash flow and 78% of its stated book value, the company's market cap is approximately what its stake in TransAlta Renewables is worth. In other words, you get the legacy assets for free.

TransAlta will receive $37.4 million each year until 2030 as compensation for Alberta switching to a coal-power free province. It will then use that capital to convert many of its existing coal-fired facilities into ones that burn natural gas.

The bottom line

Value investing doesn't have to be hard. When peers get expensive like Fortis, Chartwell, and Rogers, maybe consider switching into cheaper alternatives like TransAlta, Extendicare, and Telus.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TAC (TransAlta Corporation)
4. NYSE:TU (TELUS)
5. TSX:CSH.UN (Chartwell Retirement Residences)
6. TSX:EXE (Extendicare Inc.)
7. TSX:FTS (Fortis Inc.)
8. TSX:RCI.B (Rogers Communications Inc.)
9. TSX:T (TELUS)
10. TSX:TA (TransAlta Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

default watermark

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2017/04/27
Author
nelsonpsmith

default watermark