Bargains or Busts: 2 Companies Trading at Big Discounts

Description

When companies are trading below book value, that could be an opportunity to buy stocks at a discount and lock in a low price. However, if a company has underlying problems or going concern issues then the stock may not be worth its book value anyway.

By the book

TransAlta Corporation (TSX:TA)(NYSE:TAC) is a stock that is trading at less than 70% of its book value with a share price of under $8. However, in the past year the stock has increased by over 36% and year-to-date is up 5%.

In its most recent quarter, the company saw revenue increase by 2% year-over-year but posted a net loss for the second time in the past four quarters. In the trailing twelve months, TransAlta has had an earnings per share totaling $0.11, meaning the stock is currently trading at over 70 times its earnings.

Although the stock is at a discount, historically it has not traded significantly higher than book value to begin with. In the past five years, the share price has declined by over 50%, and that will have a lot to do with the low book value multiple because when the shares were issued the stock price would have been higher and the subsequent decline has dropped share price below book value.

With comparable companies like **Capital Power Corp** trading at 11 times earnings and **Atco Ltd.** trading at less than 17, TransAlta does not look like the great buy it appears to be at first glance.

A golden opportunity?

Yamana Gold Inc. (TSX:YRI)(NYSE:AUY) is trading at similar discount as TransAlta at around 70% of its book value. However, in the past year Yamana has seen its share price plummet by nearly 50% and in five years the stock has dropped almost 80% of its total value.

In its most recent year, Yamana saw sales grow by almost 4%, but that is still down over 2% from two years ago. The company has been deep in the red with over $4.2 billion in losses in its last four years. However, cash flow is not in a dire situation as non cash items have been responsible for much of the drain and the company has been able to achieve a positive cash flow from its operations in each of the past four years.

Impairment losses have been responsible for a lot of the company's losses and this would explain the low valuation of the company's stock as investors might be concerned about future impairment losses and whether the book value is reliable. These 'unusual' expenses have occurred in each of the last four years and seem to be commonplace. For that reason, I would stay far away from Yamana's stock since price-to-book value is not a useful ratio if book value is unreliable to begin with.

Bottom line

When you are looking at companies that are trading below book value it might be tempting to think that this is a deal since the stock looks to be undervalued. However, often times there are valid reasons for the declines and why investors don't value the stock highly, and these two companies are no exception to that.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:TA (TransAlta Corporation)
4. TSX:YRI (Yamana Gold)

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