TSX Value Stocks for 2018

Description

A number of analysts are talking about sector rotations as 2017 winds to end. Growth stocks were all the rage. That is likely to continue, but with less fuel in 2018. Meanwhile, some of the biggest winners for the month have been valued-based retail companies, literally popping up and making bigger positive moves recently than they have all year. We might not see an almighty market correction, since this sector rotation is a convenient way of rebalancing equity sectors in general.

While some readers are doing their holiday shopping, know that **Foot Locker, Inc** (NYSE:FL) rose 35% in a week — that is not a typo! This stock was beat up for the year and may now be rebounding. **Gap Inc** (NYSE:GPS) is up 30% in a month after trading sideways for almost two years.

An opportunity to trap value among TSX stocks?

Linamar Corporation (TSX:LNR) has been out of favour as of late and got a 16% price haircut in November, making it even cheaper with a price-to-earnings ratio (P/E) under nine. Linamar operates in the heavy machinery space. It's known for its mobile industrial unit called Skyjack. You can't buy this as a stocking stuffer, but you may have seen a Skyjack at virtually any construction site. The majority of Linamar 2017 sales — that is, 85%– actually comes from its powertrain & driveline division.

The historic P/E for this company is admittedly in a low range, between seven and 10. This is typical of companies that are in the automotive sector. Why is this a value play for 2018? The company has diverse products that contribute to 12% revenue growth each year. This trend was no different in 2017. And forward earnings are estimated to grow by 5%.

I don't believe Linamar is a value trap, but it is worth pointing out that although return on equity is typically high; it peaked in 2015 and has dropped in the last two years. Linamar tends to fall out of favour in terms of market sentiment, and its cyclical business makes it more susceptible to investor pain if a recession were to hit (that's not on the 2018 forecast though!).

If **Great-West Lifeco Inc.** (TSX:GWO) is on your watch list, then you will have noticed that this stock hit a support level in April and has nicely moved up. Despite the 4% upward price move from the yearly low, Great-West is still a value stock. It currently has a P/E around 14. The forward P/E is 11 because earnings are estimated to increase 24%. This insurance company is expected to do well in a rising interest rate environment.

Linamar pays a dividend (0.65%) but it is rather low, whereas Great-West pays a 4.3% dividend yield. This dividend is safe for two main reasons: 1) the payout ratio continues to be at a very healthy level, 2) this company kept the dividend payout, despite harsh times in the Financial Crisis in 2008-09. Great-West shareholders can hold their chins high if they've stuck with this dividend stock. Value investors can also jump on board.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:GPS (The Gap, Inc.)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:LNR (Linamar Corporation)

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