3 Top Value Stocks to Buy in 2018

Description

Value stocks are those that are considered undervalued by investors. They are unpopular for different reasons, and thus are trading below their fair value. They tend to trade at a lower price relative to their fundamentals.

The most common measures to identify value stocks are the price-to-earnings (P/E) and the price-to-book (P/B) ratios, which tend to be low relative to the industry. You can also look at the price/earnings-to growth (PEG) ratio to see if the stock is cheap relative to its growth. The lower the PEG, the more the stock may be undervalued given its earnings growth.

Value investors believe that the market will, at some point, recognize the value of undervalued stocks, and thus make a gain when their price begin to rise to reflect their fair value. I present three stocks that look undervalued and that could rebound soon.

Goldcorp Inc. (TSX:G)(NYSE:GG)

This giant gold producer has been affected by the depressed price of gold. Its share price has been on a downward path since it reached a peak in 2011. It's down almost 11% over one year and trading just slightly above its 52-week low of $15.

This stock is cheap right now: it has a P/E of 22.3 and a P/B of 0.8 compared to a P/E of 32.3 and a P/B of 1.4 for the industry. This stock is also cheap relative to future growth with a low forward PEG of 0.58. Goldcorp's earnings are expected to grow at an average rate of 50.96% over the next five years.

The company's return on equity (ROE) was on the negative side from 2013 to 2015, but it became positive in 2016 and is still rising. The current ROE is 3.79%.

Most analysts are bullish regarding gold price in 2018. The rise in the gold price should push up the stock's price. A stronger loonie should also give a boost to this gold miner.

Lundin Mining Corporation (TSX:LUN)

This diversified base metals mining company's stock has returned 27% over one year, but it's still very cheap. Its trailing P/E is only 12.6, and its PEG expected over the next five years is only 0.32, so that means you are paying a low price for high growth prospects. Lundin Mining's earnings are expected to grow at an average rate of 42.05% over the next five years.

The company's ROE was negative in 2015 and 2016, but it has returned to the positive side during the last year and is now standing at 12.31%.

Weaker copper and zinc production outlook is expected in 2018. This will impact near-term cash flows, but the situation should improve in 2019. So, the stock may experience short-term volatility, but it should reward you in the long term, since copper and zinc prices are rising.

Cascades Inc. (TSX:CAS)

This tissue manufacturing and conversion company has returned about 20% over one year, but it's is still greatly undervalued. The industry's average P/E stands at 12.6, while Cascades has a very low P/E of three. It's also cheap relative to growth with a PEG expected over the next five years of only 0.48. Earnings for the next five years are expected to grow at a rate of 37% on average per year.

The company's ROE was negative in 2014 and 2015, but it became positive in 2016 and is rising fast, now reaching 35.35%, which is high.

Cascades recently acquired four plants in Ontario to strengthen its position in the containerboard packaging sector, and bought an ownership position in Tencorr Holdings Corporation. The company also increased its equity holding of the Greenpac Mill LLC.

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2. Metals and Mining Stocks

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