3 Top Value Stocks to Buy in 2018

Description

The year is off to a good start, with markets continuing to rally and reaching new highs, as investors remain optimistic, and the Canadian economy continues to impress. And while Canada is a very desirable place to be, finding attractively valued or even fairly valued stocks remains challenging.

Based on the themes that I expect to take centre stage in 2018, here is my list of three undervalued stocks to own.

Firstly, as the price of oil surpasses $60, we can expect to see energy stocks outperform in 2018.

As a case in point, **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) reported third-quarter EPS of $0.19 compared to a loss of $0.32 in the same period last year, and it had cash flow per share of $1.37 compared to $0.92 in the same quarter last year. Free cash flow was $1.2 billion in the first nine months of 2017, some of which has been used to pay down debt, which is currently standing at 42% of total capitalization. This is attributed to a 14% increase in production, higher prices, and better efficiencies.

Going forward, we can reasonably expect future dividend hikes from Canadian Natural, as strong production increases are expected to continue in 2018. The company currently expects a 17% increase in 2018 production.

With oil prices trading at close to $55 per barrel, we should be cognizant of the fact that most company and analyst guidance and expectations are made at prices that are far lower than that. So, if prices remain at these levels, we will clearly see a wave of better than expected results.

The second theme is that of rising interest rates in 2018.

Accordingly, **Industrial Alliance Insur. & Fin. Ser.** (TSX:IAG) is another value stock that should outperform in 2018.

With a primary focus on the Canadian market, the company stands to gain the most of its peer group from rising interest rates. The company has disclosed that a 10-basis-point increase in interest rates will impact net income by $15 million.

Lastly, in my view, 2018 will see some of the “ignored” high-quality stocks outperform.

Winpak Ltd. (TSX:WPK) has a 38% three-year return, but it has languished as of late with rising oil prices and the consequent increase in its cost of production. The stock has declined 24% since the summer of 2017, leaving us with the opportunity to buy it at dirt-cheap prices.

Winpak has a history of strong, steady performance, of returning cash to shareholders, of growing its business in a conservative, profitable manner that ensures steady growth over time, and making all stakeholders happy.

With lots of cash and no debt, the company is well positioned to continue to expand organically and introduce new technologies and/or take advantage of new product opportunities, and, according to management, the investments planned are expected to provide an +20% internal rate of return.

In summary, looking beyond the investment themes that worked in 2017, investors should position their portfolios for the emerging themes that will take hold in 2018.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:IAG (iA Financial Corporation Inc.)
4. TSX:WPK (Winpak Ltd.)

PARTNER-FEEDS

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