Looking for Value? A Cheap Canadian Large Cap Is Trading 20% Lower

Description

Finding companies trading on Canada's TSX with market capitalizations above $1 billion and valuation fundamentals can be very hard to do. Before I reveal this company's name, I'll let you guess. In the meantime, just admire these numbers:

Market Capitalization	$6.3 billion
Trailing price-to-earnings (P/E) ratio	3.44
Price/earnings to growth (PEG) ratio	0.3
Price-to-sales ratio	0.4
Price-to-book ratio	2.07
Enterprise value/revenue	0.54
Enterprise value/EBITDA	3.83
Return on equity (ROE)	115.9%
Operating margin	8.4%
Profit margin	11.8%
Cash flow from operations	$2.4 billion
Cash on hand	$4.1 billion

Source: Yahoo! Finance

All of these numbers are as of Tuesday's close, a day which saw Canada's largest airline, **Air Canada** (TSX:AC)(TSX:AC.B), close down more than 1%, as the airline sector continues to sell off due to concerns about the price of oil and profitability moving forward. While Air Canada may not be the cheapest large-cap company overall based on particular metrics, on the whole, the case can certainly be made that Air Canada is trading at perhaps the deepest discount of any large Canadian company currently, given the growth story Air Canada has been over the past decade.

While industry fundamentals remain very solid, two potential headwinds mentioned by fellow Fool contributor Joey Frenette in his recent piece are the rise of ultra-low-cost carriers in the Canadian airline space and increased costs due to the company's in-sourced loyalty program. These concerns, along with rising oil prices, have certainly been factored in to Air Canada's share price, which is now down almost 20% from its peak just a few months ago.

Looking forward five or 10 years, barring another 9/11 incident or airline-related scandal, Air Canada is poised to take advantage of a sector which is likely to maintain its protected oligarchical structure, steady growth rate, and improving sector-specific fundamentals. As such, the recent sell-off of late can be viewed as yet another dip for long-term investors to buy. As Air Canada continues its slow and steady ascent, investors can expect debt repayments and potential distributions (either via dividends or share repurchases) down the road: two factors that would drive the company's share price even higher.

Bottom line

Air Canada's stock is simply so cheap at this point that I think some investors are turned off, asking "what's wrong?" or "what am I not seeing here?" They're taking the view that Air Canada's stock price has to drop, simply because it has increased so much over the past nine years. The reality also remains that Air Canada's legacy issues, such as its high debt load (which is only approximately $2 billion more than the company's cash on hand), have been anchors weighing down this airline's stock for a very long time.

I would expect in the coming quarters that Air Canada's management team announces major debt repayments and/or stock repurchases, given the discounted nature of Air Canada's stock price. Even if I'm wrong, and the company continues to hoard cash, I believe Air Canada's wide moat and rock-bottom price should be attractive for any value investor out there.

Stay Foolish, my friends.

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