3 Ridiculously Cheap Stocks for Beating the Market

Description

If you're looking for bargains, you've come to the right place. Oil and gas producers, particularly the ones in the small- to mid-cap space, are severely undervalued. Investors should consider the ones that aren't overleveraged and have staying power. If energy stocks are too volatile for your taste, you can consider a safe, high-yield stock that I'll discuss.

Birchcliff Energy Ltd. (TSX:BIR) is a small-cap, low-cost natural gas and light oil producer. The stock is trading at a 50% discount from where it was a year ago. However, the company isn't doing nearly as bad.

In Q4 2017, Birchcliff produced on average ~80,100 barrels of oil equivalent per day. While achieving record average production in 2017, Birchcliff managed not to increase its debt, which is impressive. It maintained a conservative debt-to-equity ratio of 0.56.

For the quarter, Birchcliff generated cash flow per share of $0.36. This implies that the stock is trading at an absurd valuation of ~2.6 times its cash flow at $3.77 per share.

You'll be thrilled to know that at the peaks of the previous four cycles, Birchcliff traded at at least eight times cash flow. This means the stock can skyrocket to +$10 per share in two to three years! Seven recent indirect insider purchases also confirm that Birchcliff is cheap. The most recent buy was on Monday at ~$3.86 per share.

If you feel more comfortable owning larger-cap names, you can consider mid-cap **Tourmaline Oil Corp.** (TSX:TOU), which is in the same camp as Birchcliff. Tourmaline is a gas-weighted producer that is well run and has a clean balance sheet. It also had multiple insider purchases recently.

If the gas producers aren't for you, consider **Plaza Retail REIT** (TSX:PLZ.UN), which is also ridiculously cheap. In the past, the REIT had traded at a multiple of +15, even though it had no growth in those years. At $4.01 per share, the retail REIT trades at a multiple of ~11.4 and offers a yield of nearly 7%!

Plaza Retail's occupancy is stable at ~95%. Its cash flow generation is stable. Its dividend is stable with a recent payout ratio of ~77%. Moreover, the REIT's interest coverage and debt-service ratios improved to 2.36 times and 1.68 times at the end of 2017.

Income investors will be reassured that its distribution growth record has been phenomenal. Specifically, Plaza REIT has increased its distribution for 15 consecutive years. Only one other Canadian REIT has achieved that feat.

Investor takeaway

Birchcliff, Tourmaline, and Plaza Retail are all ridiculously cheap stocks. Investors with a bigger appetite for risk can consider either Birchcliff or Tourmaline (but not both, since they're in the same space). An investment in either today can deliver strong upside in the next two to three years.

Value and income investors can consider Plaza Retail, which offers a safe ~7% yield. If the negative sentiment around retail REITs lifts even a little, the stock can trade +16% higher a year from now at a multiple of 13.

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2. Energy Stocks
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1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:PLZ.UN (Plaza Retail REIT)
3. TSX:TOU (Tourmaline Oil Corp.)

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