



Exploring Value: These Stocks Trade Below Book

Description

Of all the metrics that value investors focus on, there are two that are important and relatively easy to understand: the price-to-earnings (P/E) multiple and the price-to-book (P/B) ratio.

While a company producing earnings is desirable, it doesn't tell the whole story. A company may be extremely profitable, but its price may be fundamentally detached from the value of its assets. An investor buying stocks based exclusively on earnings is ignoring the margin of safety provided by securities that are backed by real, tangible assets with marketable value.

The P/B ratio — the focus of this article — compares the underlying assets of a company, minus liabilities, with its price.

A stock that trades below book value is said to be inexpensive because it costs less at its current price than the sum of its parts is worth. If a stock has a P/B ratio of less than one, then the sale of all of the company's assets, minus the repayment of its liabilities, would produce more value for the investor than the share price paid.

This article will examine two stocks that are deeply discounted relative to book and have the potential to unlock shareholder value with their tremendous assets. Further, this article will examine one stock that trades below book but may not be the great deal that it appears to be at first glance.

Morguard Corp. ([TSX:MRC](#))

Morguard manages and invests in real estate in Canada and the United States. The company's portfolio is diverse and includes retail, office, residential, hotel, and industrial properties. Morguard's real estate services range from property management to investment products.

Morguard's shares have a book value of approximately \$280 each. With a 50-day moving average of about \$177, Morguard's shares trade at a P/B ratio close to 0.6; [Morguard's shares offer great value](#) and trade a little more than half of the price of their underlying assets. Morguard is profitable, trading at a P/E of around six and achieving five-year book value growth of over 10% per year.

Morguard pays a quarterly dividend of \$0.15 for an annualized yield of slightly less than 0.4%. The only analyst covering Morguard is from **Royal Bank of Canada**, which issued a rating of “sector perform” in March of 2018 with a price target of \$200, representing over 20% potential upside.

E-L Financial Corp. Ltd. ([TSX:ELF](#))

E-L Financial is a holding company with two distinct segments, E-L Corporate and Empire Life. E-L Corporate is an investment company and has a 52% interest in **United Corporations Ltd.** ([TSX:UNC](#)), among other holdings. E-L Financial's second segment is in its 99.3% interest in **Empire Life Insurance Co.** (TSX:EML.A), which underwrites life and health insurance policies while also providing various investment products.

E-L Financial's shares have a book value of around \$1,400 each. Turning to E-L Financial's 50-day moving average of about \$818, the company's shares trade at a P/B ratio of just under 0.6. Like Morguard, the market value of E-L Financial's shares is only a bit better than half of its value on the balance sheet.

E-L Financial pays a quarterly dividend of \$1.25 and yields a bit more than 0.6%. E-L Financial's P/E multiple of about 7.7 compares favourably to its peer group, which trades at an average of nearly 15.3. It also bears mentioning that E-L Financial has achieved year-over-year earnings growth of over 10% in both the five- and 10-year time frames.

Resolute Forest Products Inc. ([TSX:RFP](#))([NYSE:RFP](#))

Resolute is a diversified forest products company with operations across North America and internationally. Resolute offers a range of products, including pulp, tissue, wood, newsprint, and other papers. The company is also involved in electricity production.

Resolute shares have a book value of nearly \$24 each. Based on Resolute's 50-day moving average of roughly \$10.50, Resolute has a P/B ratio just over 0.4. At first glance, Resolute looks like a great value proposition, but a deeper look at the numbers tells a different story.

Resolute has struggled with profitability, and it has actually eaten away at what was once, in 2014, a book value of over \$37 per share. Looking at five-year growth per share, Resolute has seen its book value shrink by around 11.5% per year.

While Resolute has [recently returned to profitability](#), it is hard to know what the future has in store. The analysts covering Resolute also appear uncertain; two analysts have “hold” ratings and one has a “sell” rating, the consensus price target being \$9.67, which represents over 20% downside risk.

Conclusion

The P/B ratio is a useful way for investors to gain a sense of what assets each invested dollar is buying. No single metric is perfect, however, and investors need to be thorough in their research to ensure that they are buying quality stocks.

CATEGORY

1. Investing

2. Stocks for Beginners

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RFP (Resolute Forest Products)
2. TSX:ELF (E-L Financial Corporation Limited)
3. TSX:MRC (Morguard Corporation)
4. TSX:RFP (Resolute Forest Products)
5. TSX:UNC (United Corporations Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Tags

1. Editor's Choice

Date

2025/08/13

Date Created

2018/06/28

Author

jwatkinsstrand

default watermark

default watermark