A Cheap Stock to Buy Right Now: 36% Return!

Description

Make no mistake: we are in a trade war with the United States. The trade rhetoric that began in earnest at the beginning of the year has turned into a tit-for-tat tariff battle.

Dominating the trade headlines are the steel and aluminum industries. Unfortunately, Canada's steel companies have been caught in the middle and their share prices have tumbled. Although there are some real concerns, not all deserve to be punished to such a degree.

One such stock is **Russel Metals Inc.** (TSX:RUS). Contrary to many of its peers, Russel conducts very little cross-border trading. It has distribution centres on both sides of the border and management has actually welcomed the higher steel prices.

Year-to-date, Russel's stock price has lost almost 10% of its value. Don't be scared off: now is the perfect time to buy.

Blowout earnings

Despite the overhang of a trade war, Russel Metals posted blowout first quarter earnings in early May. The company grew revenues by 15.8% year-over-year (YOY) and posted earnings per share (EPS) of $0.62. Analysts were expecting EPS of $0.43. — a 44% beat on the bottom line!

Russel also grew free cash flow by 17.6% YOY to $0.97 per share, which more than covers the company's $0.38 per share dividend. A dividend that currently yield's a juicy 5.66%.

Its 19% return on equity continues to be one of the best in the industry. The company is delivering solid results.

Diversification

Russel has been caught up in the media storm surrounding steel tariffs. Lost in the noise? The company has significant energy operations. Its energy products segment distributes oil country tubular goods, line pipe, tubes, valves and fittings to the oil and gas industry. The segment is clustered in two areas: Western Canada and the Southwestern United States.

In the first quarter, its energy products segment accounted for 41% of the company's revenues and 37% of operating profits. Buoyed by a rebounding oil and gas sector, energy product segment revenues increased 13% over the previous year.

Valuation

Russel's recent weakness provides an excellent opportunity. It's trading at a cheap forward price-to-earnings (P/E) ratio of 10.62 and the company's P/E to growth (PEG) is 0.22. A PEG under of under 1 signifies that the company's share price is not keeping up with expected earnings and is considered undervalued.

Analysts expect the company to post EPS of $2.48 in 2018. At today's P/E ratio of 12.62, that implies a share price of $31.30 by end of year, an increase of approximately 16% over today's price. On an annualized basis, that's a 36% return!

Don't pass on this great opportunity. Russel Metals is a great pick for both your TFSA and RRSP portfolios.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:RUS (Russel Metals)

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