3 Beaten-Down Bargain Stocks for the Rest of September

Description

> "Confronted with a challenge to distill the secret of sound investment into three words, we venture the motto, Margin of Safety." — Benjamin Graham

When the stock market is climbing, it's easy to forget one of the most central concepts of investing: margin of safety.

What does a margin of safety mean, exactly? Simple. It means buying stocks only when you're able to get a significant discount on them. In other words, you don't cut it close by buying a company worth $4 billion for $3.9 billion. Instead, you need to give yourself a much wider margin for error and wait until the price drops to $3 billion or even $2 billion.

Here's legendary investor Warren Buffett's famous analogy: when engineers design a bridge, they insist that it carries 30,000 pounds, even though only 10,000-pound trucks will drive across it.

Demanding a margin of safety does a couple of things. First, it provides a built-in fail safe in case your analysis and forecasts for a company are way off. And second, a big discount provides added upside to your long-term return potential.

So, to assist in your search for companies with a solid margin of safety, here are three stocks that have fallen at least 10% over just the past five days. I also screened for companies with at least $1 billion in annual revenue — this helps us avoid speculative small caps.

Company	5-Day Price % Change	Trailing 12- Revenue
Laurentian Bank (TSX:LB)	10%	$1.1 billion
Stars Group	11%	$1.9 billion
Yamana Gold	13%	$2.4 billion

As always, don't view these stocks are formal recommendations. Instead, look at them as a jumping point for further due diligence.

With that said, Laurentian Bank catches my eye.

Banking on it

This past quarter was a great one for Canadian banks — but not all of them. While shares of the Big Five banks have climbed on strong earnings growth, the much smaller Laurentian has gone in the opposite direction.

In Q3, Laurentian's adjusted earnings per share fell to $1.47 from $1.63 a year ago. Meanwhile, the company's adjusted return on equity decreased to 10% from 13% year over year. The bank has been hit by a decrease in residential mortgage loans (as it continues its shift towards commercial loans) as well as increased acquisition-related costs.

But here's some bullish news: Laurentian has finally healed the headaches around its mortgage loan portfolio to the satisfaction of the Canada Mortgage and Housing Corporation (CHMC).

"We have now completed our mortgage loan portfolio review and have resolved the situation with both CMHC and the third-party purchaser, with no impact on our customers," said CEO Francois Desjardins. "This has been a tremendous learning experience and in the end, makes us stronger and more determined than ever to become a renewed financial institution."

Furthermore, Laurentian shares seem pretty cheap to me. The stock is down more than 20% over the past year, and trades at a price-to-book (P/B) of 0.8. For context, the Big Five banks all trade at a P/B of 1.5 to 2.1 Given Laurentian's still very solid credit quality — 97% of its loan book remains secured — I'd expect that gap to close steadily over time.

So, while Laurentian might not be the biggest and strongest Canadian bank out there, its current margin of safety may very well be the widest.

Fool on.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:LB (Laurentian Bank of Canada)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/07/24
Date Created
2018/09/10
Author
bpacampara