3 Value Stocks for a Value Market

Description

It is increasingly becoming obvious that the market is switching from a growth bias to a value bias.

In recent history, investors had been paying top dollar for growth in a market that was decidedly optimistic in some sectors and flamboyantly euphoric in other sectors.

It seems, though, that the time has come for value stocks.

Here are three value stocks that are admittedly not the most widely talked about, but they are, nonetheless, stocks that are representing good value.

MTY Food Group (TSX:MTY)

MTY stock has increased 105% in the last five years and 38% in the last year, as the company has expanded to approximately 5,500 locations of its quick-service restaurants such as Extreme Pita, Mucho Burrito, Manchu Wok, and Thai Express.

But there is room to go higher, as the fundamentals of the business remain strong.

The company's continued acquisitions of new restaurant chains has driven an almost 200% increase in revenue in the last five years to $276 million in 2017 and a more than 200% increase in cash flows, driving increasing returns, while maintaining a healthy balance sheet.

In fact, in the last 15 or so years, MTY has acquired and integrated more than 60 brands, doing so successfully and maintaining a healthy balance sheet and stock price, which has grown at a compound annual growth rate of 25%.

Industrial Alliance (TSX:IAG)

With a 3.48% dividend yield and a valuation that is in the lower end of its historical averages, Industrial Alliance stands to benefit from its three recent U.S. acquisitions that were made in 2018.

The stock is down 20.5% since the beginning of this year, as the company issued 2.5 million shares

(2% of common shares outstanding) at $54.10 per share.

With a cash flow profile that continues to be strong, upside from the company's wealth division, and recent acquisitions acting as catalysts moving forward, Industrial Alliance has much to gain in the coming year. And this is despite the company's elimination of interest rate risk, which will be eliminated by 2020.

Earnings per share were $4.88 in 2017 and are expected to be 13% higher in 2018, among the highest of the peer group.

As a testament to management's optimism about the business, the dividend has been increased numerous times in the last few years and has grown at a compound annual growth rate of over 11%. The latest increase was a 9% increase in the last quarter.

OceanaGold (TSX:OGC)

This stock is a value play on gold prices. It's a higher-risk play, but it shows strong value.

And the risk profile has been lowered, as the company has ramped up production at its new Haile mine in South Carolina, U.S., thereby reducing its exposure to production out of the high-risk Philippines jurisdiction.

The Didipio mine in the Philippines once represented 42% of the company's total production; it now represents a significantly lower portion at 18%.

The company has a very attractive free cash flow profile, even at these depressed gold prices, so the upside is big.

In the first six months of this year, the company generated $93 million in free cash flow.

CATEGORY

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1. Editor's Choice

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1. TSX:IAG (iA Financial Corporation Inc.)
2. TSX:MTY (MTY Food Group)
3. TSX:OGC (OceanaGold Corporation)

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