



Value Investors: These 3 Cheap Stocks Have a P/E Under 10

Description

The price-to-earnings ratio is one of the most fundamental in all of finance.

There's much more to investing than P/E ratios, of course. Everything matters, from the quality of the balance sheet to who's in charge. Many stocks sky-high P/E ratios continue marching higher, while some with low P/Es keep making new lows.

Some investors even discount the P/E ratio completely, saying other metrics like free cash flow matter even more. After all, what good are earnings if they aren't generating cash?

But sometimes the best bargains are hiding in plain sight. Investors will discount a good stock with a temporarily low P/E because it seems too good to be true, then shares move up smartly a few months later and the naysayers are left wondering how they could have missed something so obvious.

Don't let that be you. Here are three great stocks currently trading with P/E ratios under 10.

Magna

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is one of the world's largest manufacturers of auto parts and accessories. The company's products can be found in almost every car in North America, and it has recently added the capability to manufacture whole cars for its customers.

Over its last four quarters, Magna earned US\$6.55 per share. The stock currently trades hands at \$50.43 on the **New York Stock Exchange**. That puts shares at just 7.7 times trailing earnings. Analysts don't predict earnings will fall off a cliff either; the stock trades at 6.8 times forward earnings.

So why are shares so cheap? Investors are worried about a global slowdown in auto sales. This could very well happen, but Magna is well positioned to weather such an event. Management has been paying off debt and buying back a mountain of shares. The dividend payout ratio is under 20% of earnings, too. This means the 2.5% dividend will continue to get paid — and likely increased each year — no matter how deep the next auto recession is.

CIBC

I continue to be amazed at how cheap Canada's bank stocks are. These are world-class institutions with a number of massive advantages versus banks in other parts of the world, including protection from large-scale mortgage defaults. This is offered by the federal government and is paid for by the borrower. Amazing.

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)) has traditionally been one of Canada's cheapest banks on a P/E basis, simply because it was viewed as extremely Canadian-centric. The bank changed that last year, finalizing its acquisition of Chicago-based Private Bancorp. Despite doing what pundits have asked, shares still trade hands at 9.9 times trailing earnings.

Even if CIBC shares trade at this low valuation forever, investors should still get a favourable result. The bank has traditionally grown earnings by 8-10% annually, and it pays a 4.7% dividend.

CI Financial

CI Financial Corp ([TSX:CIX](#)) recently did something that really polarized its investment base.

The wealth manager cut its previously generous dividend in half, and decided to take the cash saved and put it directly toward share buybacks. If everything goes according to plan, the company could repurchase \$1 billion worth of shares in the next 18 months. Given that the current market cap is just under \$5 billion, we're talking a pretty serious buyback.

Despite the move angering dividend investors, the board of directors is convinced that buying back stock is a prudent move. CI earned \$2.11 per share over the last year. Shares currently trade hands under \$20 each, which gives it a P/E ratio of 9.2. If the share buyback repurchases 20% of shares and underlying earnings stay the same, earnings will hit \$2.53 per share annually two years from now.

The bottom line

Some of the world's most successful value investors have gotten rich because they bought good companies trading at temporarily low P/E ratios. I can't guarantee you'll have the same results buying CI Financial, CIBC, and Magna, but these three solid stocks do look poised to deliver great results over the next few years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:MGA (Magna International Inc.)
3. TSX:CIX (CI Financial)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:MG (Magna International Inc.)

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