
Want to Beat the TSX Index? Start With These 2 Stocks Trading at Big Discounts

### Description

The recent market volatility has been a welcome event by value investors. During the recent bull market, growth stocks have outperformed value stocks. This was outside the norm, as historically it was the other way around. Can value investors return to their former glory?



With plenty of value opportunities for savvy investors to take advantage of, the time is now for value investing. Need a starting point? Here are two stocks that are significantly undervalued by a number of metrics.

## An industry leader with significant upside

**Magna International** (TSX:MG)(NYSE:MGA) is well known in the value circle. Thanks to recent tariff threats and the dissolution of NAFTA, Magna has struggled to gain a footing in 2018. The company's share price is down approximately 7% year to date and is trading more than 30% below its 52-week high. This is despite the fact that Magna keeps on delivering.

In the past year, Magna has grown earnings and revenues by double digits. This is right in line with analysts' estimates; they also expect the company to achieve earnings growth in the mid-teens through 2020.

On a forward basis, Magna is trading at a cheap 9.17 earnings. Likewise, its P/E-to-growth (PEG) ratio is an attractive 0.78. Made popular by famous value investor Peter Lynch, a PEG ratio under one signifies that the company is undervalued. Why? Because its share price is not keeping up with its expected growth rate.

Analysts have a one-year price target of $81.77, which implies 23% upside from today's price of $66.54. Once Canada, Mexico, and the United States ratify the USMCA deal, it should be a significant tailwind for the company.

## Small cap with positive momentum

**Cervus Equipment** (TSX:CERV) is another company whose stock has been unfairly punished. Cervus is engaged in the sale and service of agricultural, transportation, construction, and industrial equipment. It has 62 locations across three countries (Canada, Australia, and New Zealand) with $1.2 billion in revenue. Through the first nine months of 2018, the company has beat analysts' expectations on both the top and bottom lines in each quarter.

Over the past 10 years, the company has grown revenues by an average of 13.8% annually. It has grown from eight dealerships in 2003 to 62 dealerships today, and there is significant opportunity for more acquisitions. Double-digit growth is expected to continue and analysts estimate the company will grow earnings by 24% on average through 2019.

Cervus is trading at a cheap forward P/E of 7.35, price-to-sales of 0.15, and enterprise value to earnings before interest, taxes, depreciation, and amortization of 6.86. All are significantly below industry averages. The company is also trading 16% below its book value of $15.48 per share.

Given its cheap ratios, it's not surprising that its PEG ratio is a tiny 0.36. Analysts have an average one-year price target of $18.21. This is 40% upside!

The market hasn't caught on to Cervus's growth story, and it's only a matter of time before its share price corrects and shoots upwards.



## Foolish takeaway

The current market environment is tailor made for value investors. Magna and Cervus are undervalued and provide investors with great entry points. Want to beat the TSX Index? Start with these two value stocks.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

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