



Deep-Value Alert: 2 Oversold Canadian Stocks With Limited Downside

Description

The [October-December sell-off](#) was the worst barrage of market volatility that many of today's investors have ever faced. Many stocks are falling knives right now, and although timing the bottom in a stock (or the broader indices) is a foolish (lower-case "f") endeavour, prudent investors can minimize the magnitude of their downside relative to the broader markets by nibbling away at quality dividend-paying stocks that have been battered badly enough to have a [wider margin of safety](#).

If you're looking to do some dip-buying and want to minimize your downside, consider the following oversold stocks, whose companies, I believe, aren't as damaged as their charts imply.

Industrial Alliance ([TSX:IAG](#))

IA is a diversified Canadian insurance company whose stock has fallen slightly below peak levels before the Financial Crisis. After the recent 33% peak-to-trough plunge, IA stock is the cheapest it's been in recent memory with a dividend yield that's the highest it's been since 2012.

At the time of writing, the stock trades at a 7.62 trailing P/E, a 0.87 P/B, and a 0.41 P/S, all of which are considerably lower than the five-year industry average multiples of 11.2, 1.2, and 0.8, respectively, and the five-year historical average multiples of 11.6, 1.3, and 0.6, respectively.

Based on most traditional valuation metrics, IA is close to the cheapest it's ever been, and while the 4% dividend yield may not seem like much, investors should be comforted by the remarkably low payout ratio (28.4% TTM), which leaves plenty of room for generous dividend hikes in the coming years. As one of the lower-yielding players in the Canadian insurance scene, I think a big dividend boost could attract new investors its way at the expense of its higher-yielding bigger brothers.

Shaw Communications ([TSX:SJR.B](#))([NYSE:SJR](#))

The Canadian wireless scene is about to change forever as Shaw's wireless business, Freedom Mobile, continues to improve upon itself. While Freedom Mobile has been a cheap, lower-quality player

in the wireless market, I believe many analysts are discounting its longer-term disruptive potential.

Management sees Freedom Mobile taking an equal cut of the Canadian wireless pie in the future, and while this may seem like a far-fetched goal today with its vastly inferior wireless network, I think government regulators, who are pushing for fiercer wireless competition, will accelerate Freedom Mobile's subscriber growth at the expense of the Big Three incumbents.

Count on Freedom Mobile to get first dibs on future spectra auctions and look to the Big Three players to experience sustained margin erosion, as Freedom Mobile evolves into a player that could destroy the Big Three cartel as we know it.

Shaw's entry in the wireless business (and exit from its media business) has reinvigorated the company's growth profile such that the name has transformed from a stalwart into a "growthier" play that's capable of posting low-double-digit, top-line growth numbers. As the quarterly numbers gradually roll in, I suspect investors, like subscribers, will flow from the Big Three incumbents towards Shaw, the disruptor, and away from the Big Three, the disrupted.

Foolish takeaway

Both IA and Shaw are two different flavours of deep-value. Both names, I believe, possess a fairly wide margin of safety at this juncture — IA because of its extreme cheapness and Shaw due to its reinvigorated growth profile that warrants an upward correction to its valuation metrics.

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