Bargain Stock Round-Up: Are These 3 Previous Steals Still Undervalued?

Description

Let's go over some stocks that were still trading on the TSX index with low multiples just a few months ago and see whether they're still bargains. A combination of gold and energy stocks, this trio would have made a sound addition to a portfolio with their previous valuations. However, as we return to them today, we'll see that the economic landscape has shifted quite dramatically since then, skewing their value multiples.

Alacer Gold (TSX:ASR)

It should have been a good few months for this popular gold miner; unfortunately, with a one-year past earnings growth of -99.3% bringing down its five-year average past earnings growth to -11.2%, this clearly hasn't entirely been the case. It doesn't seem to be getting much better for Alacer Gold, either: It's down 2.21% in the last five days after a considerable spike in the share price earlier this month that should have seen it defy gravity in a bullish gold market.

With an acceptable debt level of 38.4% of net worth, Alacer Gold is still a fairly safe bet in terms of its balance sheet, as well as one of the better gold stocks on the TSX index in terms of momentum: A five-year beta of 1.49 relative to the Canadian metals and mining industry average shows above-average volatility. Throw in a 36.1% expected annual growth in earnings, and you have a moderately strong buy.

But is it a bargain stock? Not anymore: A high trailing 12-month P/E ratio alone shows that, despite a share price that's discounted by 29%, it is indeed overvalued in terms of earnings. The clearest indicator that it is no longer undervalued is that it's trading at book price.

Parex Resources (TSX:PXT)

What a year it’s been for Parex Resources: A one-year past earnings growth of 653.5% smashed its five-year average of 52%. However, whether an upward trend since mid-December will bring Parex Resources’s share price back to its peak in midsummer 2018 remains to be seen. It’s up 4.23% in the last five days, which is positive.

The “no debt, no dividends” mantra is still being echoed by Parex Resources, which is fine for the capital gains investor; a -4.3% expected drop in earnings over the coming couple of years is not, however. It’s still one of the best-valued energy stocks on the TSX index, though, in terms of its P/E of 5.6 times earnings. That said, a P/B of 1.9 times book is perhaps the clearest indication that a sound evaluation is elusive.

STEP Energy Services (TSX:STEP)

Do we have a winner of the undervalued stock competition? A low P/E of 3.5 times earnings and lower P/B of 0.3 times book certainly suggests as much. For anyone eyeing STEP Energy Services for downward momentum, be aware that this stock could have finally reached the bottom after its dizzying and prolonged nosedive since last May. Up 1.52% in the last five days, it could be the case that the falling knife has finally stuck.

If you’re going to buy, now might be the time to do it. It’s got a 50.5% expected annual growth in earnings over the next one to three years ahead, and its share price is discounted by more than 50% compared to its future cash flow value. Again, no dividends are on offer here, though STEP Energy services does carry some debt at 59.5% of net worth.

The bottom line

Last summer, Alacer Gold was a bargain, with low multiples and a solid outlook; this year it’s most certainly not undervalued anymore, though an overall improvement in earnings is still in the cards for the next one to three years. Depending on which metric one uses, Parex Resources can be considered undervalued, though its P/B is a touch too high next to the TSX index average of 1.5 times book; meanwhile, STEP Energy Services is undervalued based on its combination of ratios.

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