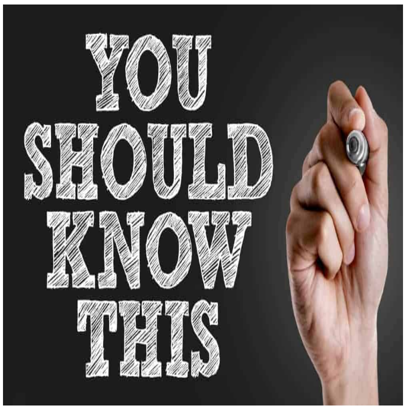

TFSA Investors: These 3 Cheap Value Stocks Could Soar

Description

Implementing a capital gains-heavy approach to your TFSA can be an incredibly powerful investing technique.

Here's the skinny on the plan. Young investors stuff their TFSA with the cheapest value stocks they can find, confident in knowing these stocks offer considerable capital gains potential. Once the stock heads higher, it's then replaced with the next candidate.

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This strategy is powerful because it helps an investor avoid taxes. Each and every transaction in a TFSA is tax-free, which means that investors should put any stock they hope to trade in that account, and keep their buy-and-hold forever stocks in a different location.

The only thing left to do is figure out which value stocks to put in your TFSA. Here are three cheap Canadian value plays with plenty of upside potential, perfect names to execute such a strategy.

High Liner

The last couple of years haven't been good to **High Liner Foods Inc.** (TSX:HLF).

The biggest issue is weakness in High Liner's traditional business, frozen breaded fish sticks. Consumers are starting to choose healthier options. Management has attempted to counter this trend by increasing discounting, diversifying into other parts of the seafood market, and by cutting corporate overhead. Thus far, these moves have only had a limited impact.

But the company still has plenty going for it. High Liner dominates the frozen fish category in Canadian grocery stores. An aggressive cost cutting program should increase 2019's results. And the company still generated plenty of free cash flow in 2018, which was a pretty dismal year.

Shares are downright cheap on a price-to-free cash flow basis. The company generated US$43 million in free cash flow in 2018, which translates into $1.70 per share. The stock currently trades hands at $7.07, which puts shares at just 4.2 times free cash flow.

It also means that the company can easily afford its 8.2% dividend, which currently sits at $0.58 per share.

Equitable Group

The market is nervous about Canadian housing – that much is obvious whenever we take a closer look at **Equitable Group Inc.** (TSX:EQB) shares.

Equitable Group is one of Canada's largest subprime lenders, marketing its products to borrowers rejected by traditional banks. This has been a terrific growth business over the last decade, with interest income increasing nearly four-fold from $107 million to $376 million. In that same period, book value per share has increased from $21.83 to $72.95.

Despite this impressive growth, Equitable shares are trading at an incredibly cheap valuation. The company earned $9.67 per share in 2018. Shares trade hands at $71.45, which gives the company a trailing P/E ratio of just 7.4. Analysts are even more bullish for 2019, giving the stock a forward P/E ratio of just 6.2.

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Equitable is also poised to be a standout dividend growth stock for the next 20 years. The company's current yield is just 1.5%, but it has increased its payout from $0.40 per share annually in 2010 to $1.08 in 2018. The trailing payout ratio is just 11%, thereby suggesting that there's still plenty of growth potential left.

BRP

BRP Inc. (TSX:DOO)(NASDAQ:DOOO) is trading at a cheap valuation despite the company's dominant position in the powersports vehicle market. BRP is a leading manufacturer of ATVs, personal watercraft, snowmobiles, and three-wheeled motorcycles.

Through the first nine months of 2018 — full-year results aren't out yet — the company reported a 15.8% increase in revenue and a 44.2% increase in normalized earnings per share. The company should earn approximately $3 per share in 2018, yet shares are languishing under $40 each. That puts shares at 13 times earnings, a bargain for a company growing at such a nice clip.

Analysts are even more bullish going forward, estimating that earnings should hit $3.60 per share in 2019.

BRP has also been an aggressive repurchaser of its own shares, decreasing the total number of shares outstanding from 117 million in 2016 to approximately 100 million today. And the company's recently-introduced dividend is growing close to 50% annually. That's a powerful combination.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:DOOO (BRP Inc.)
2. TSX:DOO (BRP Inc.)
3. TSX:EQB (EQB)
4. TSX:HLF (High Liner Foods Incorporated)

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