Is This a Danger Zone or an Undervalued Mini-Portfolio?

Description

The number one Canadian aero stock in some investors' books, **Magellan Aerospace** (TSX:MAL), continues to trade at a discount against its future cash flow value, currently around 44%, with low market variables. But should investors add it to a mini-portfolio of low-P/B ratio stocks or avoid it along with the other following bargain tickers?

Magellan Aerospace

A prime ticker for lovers of all things to do with flight and satellites, Magellan Aerospace offers a fair amount of diversification on various fronts from inter-industry reach to geographical spread to customer base. A dividend yield of 2.27% is on offer, which would make this stock a potentially solid choice for a TFSA, RRSP, or RRFI if its outlook were just a little brighter.

While it may not be what you'd call a growth stock, Magellan Aerospace makes up for it in other areas: a decent balance sheet is characterized by low debt at 9.3% of net worth, while good value for money is suggested by a P/B of 1.4 and P/E of 11.

Up 4.66% in the last five days at the time of writing, Magellan Aerospace is on the rebound this year, recovering from last November's nosedive. Though the one- to three-year outlook is mediocre with an expected 2.9% annual growth in earnings, a negative past-year earnings-growth rate is alleviated somewhat by positive five-year growth of 15.8%.

Equitable Group (TSX:EQB)

Equitable Group has an acceptable proportion of non-loan assets held, an attribute it has in common with the Big Six bankers. However, Equitable Group has advanced more loans than it holds customer deposits, which implies a level of borrowing that may put off the risk-averse long-term investor. However, Equitable Group's dividend yield of 1.76% may be of interest to passive-income fans, and it is looking at a 12.2% expected annual earnings-growth rate.

Trading with a 27% discount and down 2.26% in the last five days, Equitable Group has a so-so track record, with one- and five-year past earnings-growth rates of 3.2% and 12%, respectively. Undervaluation is suggested by a low P/E of seven and P/B of 0.9, which makes it a potential buy for the long-term investor with a focus on net per-asset worth.

Husky Energy (TSX:HSE)

As solid an energy play as any on the TSX index, Husky Energy is going for a 41% discount, with undervaluation further suggested by a P/E of 10 and P/B of 0.8, both of which beat the market. Indeed, this could be one of the better stocks for an energy investor bullish on higher oil.

Husky Energy had a great 2018, as shown by its one-year past earnings growth of 93.8%. Overall, a positive — if underwhelming — track record is shown by a five-year average growth of 4.5%. However, passive-income investors with a low tolerance for risk should be reassured by a below-threshold debt level of 29.3%.

The bottom line

Magellan Aerospace's PEG of 3.8 is suggestive of overvaluation in that arena, though all other signs point to this sturdy aero stock being a bargain. More shares have been bought than sold by Husky Energy insiders in the last few months, meanwhile, and with a 3.45% dividend yield on offer, investors have just over a week until it hits its buy limit.

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