Value Investors: These 3 Stocks Are Ridiculously Cheap

Description

One thing value investors like to do during bull markets is close their wallets and avoid buying stocks because most names are deemed to be "too expensive."

I prefer a different attitude, however. There's little doubt that most stocks are more expensive when the rest of the market is doing well. But there are still pockets of value everywhere. You just have to look a little harder.

Let's take a look at three of the cheapest stocks in Canada today. You won't believe how cheap some of these names are.

CI Financial

I've been bearish on the mutual fund industry for a little while now, even going as far as saying one company in the industry is an immediate sell and perhaps even a short candidate.

But I cannot deny how cheap **CI Financial Corp** (TSX:CIX) shares are today, which makes me bullish for the future, even if the company operates in a sector I think is poised for a long-term decline.

CI earned $2.39 per share in 2018 versus a current share price of $19.25, putting shares at a mere 8.1 times trailing earnings. Analysts are still relatively bullish on 2019's results too, with earnings expectations coming in at $2.42 per share.

The stock is even cheaper from a price-to-free cash flow perspective. Free cash flow was $2.52 per share in 2018 with an average share count of 259.3 million shares. CI is in the middle of an aggressive stock repurchase plan; the company's shares outstanding fell to just 243.3 million by the end of the year. It repurchased some 28.5 million shares in 2018 alone, with plans to gobble up more in 2019.

If free cash flow stays the same and the company repurchases another 28.5 million shares this year, free cash flow per share would be over $3 per share in 2020. The share buyback continued throughthe first quarter, with an additional $60.8 million spent on share repurchases.

The company is also expanding into other segments of the financial industry, including buying an ETF operator and a robo-advisor. These diversification moves should work out well in the long term.

Versabank

I've long argued that value investors looking to pay bargain prices for growth stocks should check out Canada's smaller banks. Most investors don't look past the five biggest Canadian banks, and are therefore missing some true bargains.

VersaBank (TSX:VB) is a rapidly growing online-only bank that has expanded into other areas of the financial sector like commercial lending and receivables lending for e-commerce companies. The company uses technology much more than the average bank, using it to help make better lending decisions. It seems to be working; VersaBank has just 0.02% of its loans put aside for losses. Its competitors average around 0.3%.

Investors are getting this superior performance at a ridiculously low valuation. VersaBank shares trade at just 9.1 times earnings and at a 30% discount to book value. The company has also nearly tripled its earnings per share since 2014. You won't find that combination of growth and value in a Big Five Canadian bank.

Bausch Health

You might remember **Bausch Health Companies Inc.** (TSX:BHC)(NYSE:BHC) better by its previous name, Valeant. The company skyrocketed to the top of the **TSX** before crashing in spectacular fashion. But something interesting has happened since the 2017 bottom. Shares are quietly up some 400%, recently hitting $35 each on the back of good quarterly results.

Bausch's main problem was its balance sheet, which investors doubted was strong enough to weather the storm of weaker results and an accounting scandal. But management has done a nice job improving the liabilities side without selling too many assets. Net debt has fallen from a peak of more than US$30 billion to US$24.5 billion today.

Recent results have also been solid, with the company experiencing a nice uptick from its international division, which saw sales increase 8% versus the same quarter last year. Eye care products have been strong, leading to 5% organic growth for the quarter. This was the best quarterly organic sales growth since 2015.

Bausch is a free cash flow monster, which doesn't really reflect in its earnings per share numbers. It generated US$1.5 billion in cash from operations in 2018, while capital expenditures were minimal. The company's market cap is US$9.3 billion, putting shares at just 6.2 times cash flow. Even after the big move, shares are still cheap.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BHC (Bausch Health Companies Inc.)
2. TSX:BHC (Bausch Health Companies Inc.)
3. TSX:CIX (CI Financial)
4. TSX:VBNK (VersaBank)

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