



Value Investors: These 3 Little-Known Companies Are Incredibly Cheap

Description

After a decade of underperformance, it's time for investors to embrace a deep-value attitude again. I think they'll be especially happy with this strategy the next time the market tanks 20%. It's nice to own stocks that aren't heavily correlated with the rest of the market.

The big issue is avoiding value traps, of course. It's always difficult to differentiate between unloved assets and ones that are permanently discounted. If it were easy, then investing wouldn't be nearly as challenging — or fun.

Let's take a closer look at three of Canada's cheapest stocks — companies that are poised to soar once the market figures out their potential.

E-L Financial

E-L Financial ([TSX:ELF](#)) has been one of the cheapest stocks on the TSX for years now, consistently trading at a big discount to its book value.

There are a few reasons for this discount. The main operating company is a conservative life insurer, which isn't exactly a sexy business. The corporate structure is a complex web of holding companies. The stock is incredibly illiquid, and some days shares don't even trade at all. This is despite the company being a decent size; it has a market cap of \$3.2 billion, but shares are tightly controlled by insiders.

This high insider ownership is one of the main reasons investors should be bullish. They should also like the company's big discount to stated book value — which stands at well over 40%, well above the historical average — and the conservative nature of E-L's balance sheet and business overall.

Investors don't need the discount to shrink for this investment to work out, either. The company has consistently grown underlying earnings, which has helped push shares higher. The stock is up 21% since August 2016 lows.

Equitable

So many investors only pay attention to Canada's largest banks. This means small players enjoy life under the radar, which gives investors a chance to buy at some incredibly cheap valuations.

Case in point is **Equitable Group** ([TSX:EQB](#)), which is a smaller bank and alternative lender with just over \$26 billion in assets. The company focuses on giving loans to homeowners who still have decent credit, yet are rejected by regular banks.

This segment of the market is growing nicely and is showing little sign of slowing down. In 2014, Equitable earned \$6.53 per share on revenue of \$217 million. In 2018, revenue increased to \$376 million and earnings were up a similar amount, increasing to \$9.67 per share.

Despite this impressive growth, Equitable still trades at a bargain price. Shares trade at approximately book value and at just 7.4 times trailing earnings. Analysts are predicting a nice pop in earnings, too, with the bottom line expected to surge to \$11.69 per share in 2019.

American Hotel Properties

American Hotel Properties REIT ([TSX:HOT.UN](#)), which is the owner of more than 100 hotels across 31 states, is selling at a bargain price because dividend investors enticed by the high yield are beginning to worry about the stability of the payout.

The company earned approximately US\$0.65 in adjusted funds from operations (AFFO) in 2018. Results were down because hurricanes in Florida buoyed 2017 earnings and several prominent properties were being renovated. Although management is confident earnings will recover and push the payout ratio down, dividend investors are understandably nervous about every dime of earnings going towards paying the dividend.

But there's a lot to like about the company. The U.S. economy is strong, which should lead to higher average hotel prices. It has the potential to make acquisitions to add to the bottom line. And, perhaps most importantly, shares are fantastically cheap. The stock trades at just 7.9 times AFFO and at a healthy discount to book value. And if AFFO recovers to 2017 levels in 2019, shares trade at 6.7 times forward AFFO.

Even if American Hotel Properties cuts its generous 12.7% dividend in half, investors would still be paid well over 6% to wait for shares to recover to a more reasonable valuation.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ELF (E-L Financial Corporation Limited)

2. TSX:EQB (EQB)
3. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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