Now Is the Time to Buy the “Cheapest Stock” on the TSX Index

Description

As geopolitical turmoil heats up, the best thing you can do is seek deep-value stocks that are so battered that they’ll barely flinch as the broader markets continue flopping.

default watermark

Such stocks usually possess temporarily lowered betas or a lower correlation to the broader markets.

In times like these, when a single Trump tweet could take down the averages like a pack of cards, it’s essential to be exposed to names that have more to offer in the way of value. As the **S&P 500 Composite Index** pulls back into another correction, it’ll be the already beaten-up names that’ll better stand their ground or even rally.

One such battered bargain on the **TSX**, I believe, is **Linamar** (TSX:LNR), a stock so ridiculously out of favour and cheap that it’s virtually trading in its own world.

For those unfamiliar with the name, it’s a diversified manufacturing company that also happens to be the second-largest auto parts manufacturer in Canada.

Although I’ve been extremely bearish on the auto part makers as a whole over the past few years, I’m a firm believer that there’s a certain price where every stock, even the ones of crummy businesses, becomes a buy.

Despite the extremely unattractive nature of hyper-cyclical auto (and other long-lived equipment) suppliers in the late stages of the market cycle, I do believe that the stock is priced such that we’re already in a global recession.

Moreover, Linamar isn’t *just* an auto part manufacturer, as it produces various other pieces of industrial equipment as well despite the fact that the stock has been more negatively affected than some of its less-diversified peers.

While Trump's trade war has already begun to hurt the global economy, we're still nowhere close to a recession, so the "peak auto" or "peak long-lived asset" thesis, is, I believe, exaggerated beyond proportion when it comes to Linamar stock.

North American vehicle production fell nearly 7% on a year-over-year basis in April, and although that's a cause for concern for the industry overall, Linamar is already trading as though vehicle production is already in freefall.

There's cheap, ridiculously cheap, and there's Linamar cheap. The stock trades at 4.9 times next year's expected earnings, 0.8 times book, and 0.4 times sales, all of which are substantially lower than the five-year historical average multiples of 10.4, 1.9, and 0.8, respectively.

Typically, the best time to buy the hyper-cyclical stocks is when the trailing P/E ratio is nil or out-of-this-world because that means that the earnings nosedive that usually comes with a severe economic downturn is already in the rearview mirror.

At today's valuations, the stock is priced with a huge earnings shortfall expected, and if we're actually in a slowdown, not a recession, the stock could be underpriced for no good reason.

As such, the risk-reward trade-off looks very compelling for those with the courage to go against the grain with a stock whose chart is indicative of a falling knife or value trap.

default watermark

Foolish takeaway

While I'm not a fan of the highly cyclical nature of the auto or long-lived asset business, I am a fan of Linamar's valuation and the fact that shares are priced such that a recession is already a given.

With that in mind, I do believe shares could correct upwards should the economic slowdown be limited to just that.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. TSX:LNR (Linamar Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/08/26
Date Created
2019/06/02
Author
joefrenette

default watermark

default watermark