Value Investors: This Cheap Stock Offers 120% Upside Potential

Description

As the **TSX Composite Index** bumps up against all-time highs, it's tough to find value stocks. While there are a few gems on the 52-week-low list, the majority of names trading at a cheap valuation aren't the kinds of stocks I want to own over the long term.

But there are a few interesting bargains out there. I'd like to highlight one today — a stock that is trading at an incredibly cheap valuation, despite growing book value by an impressive 18% per year since 2013.

Let's take a closer look at one of the cheapest stocks not currently on your investing radar: **Dream Unlimited** (TSX:DRM).

The skinny

Dream Unlimited has a plethora of interesting parts which combine to make a compelling investment opportunity.

Let's start with Dream's role as an asset manager. The company has the contract to manage the assets all of the publicly traded Dream-branded real estate investment trusts (REITs). In 2018, these contracts generated approximately $33 million worth of earnings.

Dream Unlimited also retained large investments in these related REITs that are performing well. These investments added $20 million to the bottom line in 2018 from dividends alone. The Dream REITs have also delivered some nice capital gains over the last couple of years.

Then we have the real gem of the company, which is the development portfolio. Dream owns some impressive real estate across Canada's largest cities — property that is slowly being developed. Marquee projects planned include the following:

- The Distillery: a 1.1 million square foot mixed-use facility located in Toronto. This project will add $25 million to Dream's annual bottom line when completed.

- The Canary District, which will feature nearly 2,000 condos in Toronto's east end.
- West Don Lands, also in Toronto, which will feature 1,500 condos and 344,000 square feet of retail and commercial space.
- Zibi, a potential four-million-square-foot development in Ottawa, which will feature a mixture of condos, office, and retail space
- Providence: a neighborhood in Calgary featuring more than 1,200 properties in phase one alone once the city's Ring Road extends to the planned development.
- Various developments in Saskatoon, which together will feature some 550 acres of space and more than one million square feet of development.

Finally, Dream Unlimited also owns some interesting assets already, including renewable power plants, a 50% interest in the Broadview Hotel in Toronto, and Arapahoe Basin, a ski resort in Colorado.

The opportunity

Together, these assets are worth more than Dream Unlimited's current share price, which is $7.12 per share. A lot more, actually.

The asset management business — including the stakes in the publicly traded REITs — is worth $4.31 per share alone. The existing real estate in the portfolio is worth nearly $2 per share. Then we have the development lands. These are worth approximately $8 per share at current market prices — much more than the value listed on the balance sheet.

Put it all together, and we have a company with a net asset value of $15.70 per share. That gives investors upside potential of 120%.

The best part? It could be even better. If the underlying real estate market cooperates while Dream develops these projects, they'll be worth all the more upon completion. But even if prices stay flat, there's plenty of upside opportunity here.

The bottom line

The beauty of this investment is, the downside potential is limited. The stock's current level represents the value in the asset management business and the existing real estate. Investors are getting the development portfolio for free.

An opportunity with huge upside combined with limited downside should get value investors pretty excited. It isn't often something like this comes along, especially when the overall market is so high.

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