2 Stocks That Are Absurdly Cheap Right Now

Description

The **S&P/TSX Composite Index** is trading 2% below all-time highs. But there are stocks that have underperformed the broader indexes and are attractive at current prices. Here we look at two such stocks that are trading at a cheap valuations and might be undervalued.

Capital Power Corporation

Shares of **Capital Power Corporation** (TSX:CPX) have gained 6.6% in the last 12 months compared to the 9.3% gain for the S&P/TSX Composite Index. Capital Power is a North American power generation company.

It acquires, develops, and operates power generation from several energy sources. CPX has electric generation facilities in Alberta, Ontario, and British Columbia. In the U.S., it operates in North Carolina, Kansas, and New Mexico.

In North America, CPX owns close to 6,000 megawatts (MW) of power generation capacity across 25 facilities. Capital Power is a part of a recession-proof industry and is an attractive pick for a defensive portfolio.

The company has a market cap of $3.24 billion and an enterprise value of $7.58 billion. It ended the June quarter with a debt balance of $3.5 billion. CPX has an operating cash flow of $600 million and a cash balance of $168 million. Capital Power's interest payments in 2018 amounted to $134 million.

We can see that the company is generating enough cash for interest payments. It is also increasing shareholder value as the company has raised dividends from $1.31 per share in 2014 to $1.92 per share in 2019. With a payout ratio of 63.7%, CPX has enough room to reduce debt, or further increase dividend payments.

Analysts expect Capital Power to increase its earnings by 29.2% in 2019, 7.7% in 2020, and at an annual rate of 14% in the next five years. Compare this to its forward price-to-earnings (P/E) ratio of 18.1 and we can see that the stock has significant upside potential after accounting for its forward dividend yield of 6.3%.

Analysts tracking Capital Power have a 12-month target price of $33.36, which is 10% above the current trading price.

Fiera Capital Corp.

Shares of **Fiera Capital Corp** (TSX:FSZ) have lost 15% in the last 12 months, grossly underperforming broader indexes and peers. Fiera Capital is a Canada-based financial services company.

It provides investment advisory services to institutional and retail investors. Fiera also offers clients a range of investment strategies and portfolio management solutions. Fiera Capital is the third-largest independent publicly traded company in Canada with assets under management (AUM) of $150 billion.

Fiera has grown via acquisitions. It has acquired about 20 companies since 2012. This year, it acquired Foresters Asset Management, which has an AUM of $10.5 billion. It also bought an 80% stake in U.K.-based Palmer Capital, which has an AUM of $740 million.

This inorganic growth means Fiera has managed to increase sales from $344 million in 2016 to $540 million in 2018. Analysts expect revenue to reach $745 million by 2021.

Analysts also expect Fiera Capital to increase its earnings by 20.6% in 2019, 14.7% in 2020, and at an annual rate of 17.4% in the next five years. In the last five years, Fiera managed to grow earnings by just 3.3% annually.

Comparatively, the stock is trading at a forward P/E multiple of 7.1, which is really cheap. The company also has a very attractive dividend yield of 7.9%.

Analysts tracking Fiera Capital are also bullish on the stock. They have a 12-month target price of $13.38, which is 28% above the current trading price.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)
2. TSX:FSZ (Fiera Capital Corporation)

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