Investors: These 3 TSX Dividend Stocks Are Embarrassingly Cheap

Description

Much has been written about the death of value investing, but I, for one, am not quite ready to put a nail in value's coffin.

There are two classes of value stocks. The first are often unbelievably cheap on the surface, luring in naive investors who don't take a hard look at the financial statements. These are the value traps you hear about so often, and these stocks will often stay cheap for years.

The second class is where you want to invest. These are good companies that are inexpensive because of temporary weakness. Once they work through fixable problems, shares will likely shoot much higher.

It's difficult to tell the difference between these two types of value stocks, which is why I'm here to help. Here are three temporarily beaten-up Canadian stocks, companies will all sorts of upside potential. Let's take a closer look.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) has a tonne going for it. It has quietly become Canada's largest oil producer, projecting it'll extract nearly 1.2 million barrels of oil per day from its various production assets. It has long-life, low-decline assets in places like the oil sands in Alberta, the North Sea, and off the coast of Africa. Reserves are close to nine billion barrels of oil, which gives it the largest reserve life of any Canadian oil producer.

Management has done a nice job navigating the poor energy market. Costs have been slashed to the bone, and big capital projects are done, leaving just minimal maintenance capital left to be spent every year. That's created a situation where the stock is poised to deliver massive free cash flow.

The company projects it'll earn approximately $5 billion in free cash flow in 2020, assuming the price of crude stays around the same as it did in 2019. Shares have a market cap of under $45 billion. That gives the company a dirt-cheap price-to-free cash flow ratio of under nine times.

And remember, Canadian Natural pays a 4% dividend — a payout that has been hiked consistently since it was introduced in 2001.

Slate Office REIT

There's a pretty obvious reason why **Slate Office REIT** (TSX:SOT.UN) shares are so cheap. Last year, the company did the unthinkable and slashed its dividend. Many investors headed for the exit and haven't looked back.

Perhaps they should look at this stock again; it has plenty going for it. The portfolio is largely focused on the Greater Toronto Area, a real estate market that offers both strong occupancy and increasing prices. The company has recently gotten a great deal on a couple of buildings in Chicago. And its balance sheet continues to improve, paving the way for more acquisitions.

Like Canadian Natural, Slate Office REIT is quite cheap on a price-to-cash flow basis. The company trades at less than seven times 2019's estimated funds from operations, and shares are 35% under net asset value. You won't find many stocks cheaper than this one.

Oh, and even after the dividend cut, Slate Office REIT still pays a generous payout. The current yield is 6.8%.

CI Financial

CI Financial (TSX:CIX) is one of Canada's largest wealth managers, investing on behalf of regular Canadians in mutual funds, ETFs, and through a recently acquired roboadvisor.

Despite the headwinds impacting the mutual fund market as a whole, CI is doing some interesting things. It continues to add assets under management by acquiring both mutual fund companies and ETF assets. This is helping to boost the top line. Financial results, like its return on equity, continue to be strong. And the company still generates gobs of free cash flow.

The majority of that free cash flow is being used to repurchase what the company views as undervalued shares. Approximately 23 million shares have been bought back over the last year, which is almost 10% of total shares outstanding. This has pushed the trailing P/E ratio to just 10 times earnings, despite shares being at a 52-week high.

CI Financial also pays a 3% dividend — a payout that should increase once the share-buyback program is completed.

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