2 Stocks Trading Well Below Intrinsic Value

Description

As a value investor, it's your job to do enough homework, so you're able to gauge the intrinsic value of a business. It's Mr. Market's job to do his best to set a stock price that reflects a company's intrinsic value, but he isn't always accurate!

Heck, he can be far off from the intrinsic value range in times of panic, when the degree of market efficiency drops drastically, and that's a significant reason why stocks correct, not just downwards, but to the upside as well!

Any stock that's trading below its intrinsic value range is a buy, even the stocks of challenged businesses with ample baggage. The key is weighing the risks associated with such out-of-favour companies when determining a company's intrinsic value. That's no easy task, but for those willing to put in the due diligence, there are ample rewards to be had for those seeking excess risk-adjusted returns.

Consider shares of **Corus Entertainment** (TSX:CJR.B) and **NFI Group** (TSX:NFI), two TSX stocks that I think have overswung to the downside amid their respective plunges, opening up an opportunity for deep-value investors to bag a big bargain.

Corus Entertainment

Plain and simple, Corus found itself on the wrong side of a secular trend. Cable cutting and a gravitation away from old-school mass media took a toll of the stock over the years, with shares now down over 80% from 2014 pre-crash highs.

With the video-streaming landscape becoming that much more competitive, it's tough to justify betting on a company that's fallen into such a tailspin. While there are few things that managers can do to counter such profound industry headwinds, I am still a believer that below a certain price point, every stock becomes a buy, and I think Corus has fallen well below its intrinsic value range.

The company recently clocked in $468 million in revenue for Q1 fiscal 2020 and free cash flow of $53 million — an improvement of nearly $4 million on a year-over-year basis. Corus ditched some non-core assets and shuttered some of its less-profitable operations, making it a more attractive takeover target amid the continued consolidation of traditional media players.

While I'd never recommend a stock on a takeover, I am encouraged by continued free cash flows that aren't characteristic of a company with a stock that's lost over 80% of its value.

NFI Group

NFI Group, a popular Canadian bus manufacturer, had a brutal 2019. But thus far in 2020, the stock is looking like a winner, with the stock now up 17% year to date. Back in January, I'd called NFI an underrated stock that was poised to soar at a time when some analysts had "hold" ratings on the name.

The company had faced the perfect storm of issues, with operational challenges coming at a time when industry conditions were softening. I didn't think NFI's troubles warranted a 58% peak-to-trough drop, though, which is why I'd pounded the table on the name in the latter part of last year.

"You can't blame NFI's management team for unfavourable industry conditions. The late stages of the market cycle mean big-ticket purchases will be postponed. What you can blame management for is its sub-optimal dealing with operational challenges faced over the past few years." I wrote back in November 2019. "In light of management's expectations that coach deliveries will rebound in the fourth quarter, the stock could be ripe for a slight upside correction as investors shed their fear of prior operational challenges and a bleaker industry environment."

Fast forward to today, and NFI is getting back on the high road. With plenty of room left to rebound, a 5.2%-yielding dividend, and a valuation multiple that remains attractive (0.6 times sales), I'd urge investors to hop aboard the stock if they seek a stock that trades at a massive discount to its intrinsic value.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:CJR.B (Corus Entertainment Inc.)
2. TSX:NFI (NFI Group)

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