Value Investors: 2 Cheap TSX Stocks for Your TFSA

Description

When it comes to value investing, few investors have been able to replicate the success of financial moguls such as Warren Buffett and Benjamin Graham. These world-famous investors always took a long-term bet on what they thought were stocks trading below their intrinsic value.

Here we look at two such Canadian companies that might be great value picks given their attractive valuation multiples and expected future performance.

IA Financial

IA Financial (TSX:IAG) is a Canada-based giant that offers a range of life and health insurance products in addition to savings & retirement plans, mutual funds, home & auto insurance, mortgage loans, and related services.

IA Financial Group's stock has more than doubled in the last decade. In the last year, the stock has returned 38% compared to the S&P 500 returns of 21%. Despite the stellar run since February 2020, IAG shares are trading at a forward price-to-earnings multiple of 12.5.

It is valued at $7.56 billion in terms of market cap and has a price-to-sales ratio of 0.5. Comparatively, its price-to-book ratio stands at 1.33, while the enterprise value-to-revenue ratio is also low at 0.57.

Analysts expect IAG to increase earnings per share by 9.4% in 2020 and by 6.7% in 2021. In 2019, IAG managed to increase earnings by 13% year over year. Further, the stock also has a forward dividend yield of 2.8% with a payout ratio of just 28% which gives the company enough room to easily double dividend payments and still have leeway for expansion and other investments.

IAG has a cash balance of $1.75 billion and debt of $2.57 billion. Its operating cash flow is $418 million, which is enough for interest payments. IAG is a fundamentally strong company, and I had first recommended the stock in October 2018. It has since gained 14%.

Mullen Group

Though not as large as IAG, **Mullen Group** (TSX:MTL) is another undervalued stock that can be considered for your TFSA. Mullen Group is a Canada-based trucking and logistics services company.

It provides a range of specialized transportation services to Canada's oil and natural gas industries. Mullen Group has a strong presence in Western Canada. The company's stock price has been impacted by Canada's weak oil and energy market. In the last year, investors have lost a quarter of their investment value in Mullen.

Analysts expect Mullen Group to increase sales by 5.1% to $1.34 billion in 2020 and by 4.8% to $1.41 billion in 2021. While earnings are estimated to fall by 27.5% in 2020, it might rise by 14% in 2021 and by an annual rate of 17% over the next five years, according to consensus estimates. This means earnings might rise by a stellar rate of 31.6% between 2021 and 2024.

Mullen Group is valued at $959.15 million in terms of market cap and has a price-to-sales ratio of 0.75. Comparatively, its price-to-book ratio stands at 1.04, while its enterprise value-to-revenue ratio is also low at 1.19.

The stock is trading at a forward price-to-earnings multiple of 16, which is a bargain, especially after accounting for a tasty dividend yield of 6.4%. I had first identified Mullen Group as undervalued in December 2019. It has since gained 12%.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:IAG (iA Financial Corporation Inc.)
2. TSX:MTL (Mullen Group Ltd.)

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