3 Great TSX Stocks Under $10 a Share

Description

Ridiculously cheap stocks are usually overlooked by investors who consider them risky. However, the sub-$10 cohort of listed companies has some interesting and relatively attractive opportunities that are difficult to ignore. Some of these rare micro-stocks hold the potential to deliver stunning returns for investors who catch onto them early.

With that in mind, here are three stocks under $10 I'm keeping a close eye on.

Lucrative royalties

The royalty business is fascinating. Buying a brand and charging franchisees to use it is a capital-efficient way to create a recurring source of long-term income. **Diversified Royalty Corp.** (TSX:DIV) is an industry leader with some easily-recognizable brands in its portfolio.

The company owns Sutton, Oxford Learning, Mr. Lube and Mr. Mikes among other local brands with multiple outlets across Canada. Small- and medium-sized business owners who run these franchises pay the company part of their revenues alongside other fees.

The company is so profitable that it's managed to maintain one of the highest dividend yields on the stock market: 7.64%. The stock trades at 30 times trailing earnings and just 15 times forward earnings, which means it could have plenty of upside left.

In fact, analysts estimate the stock could jump by a double-digit percentage this year alone. However, the stock has struggled to offer any price appreciation over the past few decades and we could be facing an economic slowdown in 2020, so I would take these estimates with a grain of salt.

American Hotels

American Hotel Income Properties REIT LP (TSX:HOT.UN) is another excellent option for dividend income-seeking investors. The stock has plunged 18.5% since the start of the year and now trades at $5.6, pushing its dividend yield to an eye-watering 15.4%.

My Fool colleague Nelson Smith ran the numbers and figured out that the stock trades at less than six times normalized funds from operations. He calls the stock “ridiculously cheap.”

However, I believe that valuation may be too good to be true. The coronavirus pandemic has drastically cut travel, and the hotel industry could be on the precipice of some rough quarters ahead.

That said, the value of commercial property could spike as mortgage rates are cut across North America, which could ultimately reduce HOT’s cost of capital and increase its per share book value. Investors should certainly take a closer look here to figure out if this unique REIT fits their portfolio.

Healthcare Properties

Unlike the two stocks mentioned above, **NorthWest Healthcare Properties REIT** is uniquely resistant to the ongoing crisis. Healthcare is immune to the business cycle, and the demand for Northwest’s properties could actually spike in this ongoing pandemic.

NorthWest is also well diversified, with medical properties in the U.K., Germany, and Australia, which reduces the trust’s exposure to any specific economy and bolsters the company’s underlying earnings.

The stock currently trades at $9.3 and offers a 6.5% dividend yield. The stock has actually *gained 2%* since the start of this year, which means it’s already serving investors as a hedge against the ongoing market crash.

Bottom line

Now that valuations have plunged, it could be the best time to look for cheap stocks with high dividend yields.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DIV (Diversified Royalty Corp.)
2. TSX:HOT.UN (American Hotel Income Properties REIT LP)

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