Incredible: This Stock Is Trading for Less Than Annual Earnings

Description

Price to earnings, or P/E ratio, is an incredibly useful metric for investors. A low P/E ratio quickly indicates a stock is being undervalued by the market. After all, a company's earning capacity is the bedrock of its intrinsic value.

However, the best stocks rarely trade at low P/E ratios. **Air Canada** and **Enbridge**, for example, are currently trading at very low P/E ratios: 3.1 and 15.2, respectively. Both companies face significant challenges ahead, as air traffic and crude oil prices collapse. In other words, they could be "value traps."

One of Canada's most underrated companies is currently trading at an insanely low P/E ratio. **Onex's** (TSX:ONEX) shares are trading at just 0.83 times annual earnings per share. Investors seem absolutely petrified about the company's prospects this year. Is the fear justified? Or is Onex a once-in-a-lifetime opportunity for investors?

Here's a closer look.

Private equity

Onex is an investment company focused on private equity. In other words, it focuses on companies that are not listed on the stock market and are not available to regular investors.

Over the past few years, the company has taken a number of well-known public companies private, including WestJet and Gluskin Sheff Associates. Altogether, the company owns a wide variety of companies that offer services ranging from autoparts to airline catering.

As you can imagine, a recession isn't good for these underlying companies. The sudden halt in air traffic is particularly bad for the company's Sky Chef and WestJet subsidiaries. Earlier this week, Onex management sent a letter to shareholders warning that some of its portfolio companies could see major declines in income this year.

However, this letter to shareholders also had some good news.

Strong balance sheet

Onex management told shareholders it had enough cash to survive this downturn. In fact, the company is actively considering some major investments as the market collapses. That could bolster its portofolio further.

According to its latest filing, Onex held $988 million in cash and cash equivalents on its books. Meanwhile, the company's market capitalization is $5 billion. In other words, 20% of the company's value is pure cash. Onex stock is also trading at less than book value, while the company has negligible debt on its books.

To be sure, the company could lose book value, as its subsidiaries suffer this year. It also suffered losses in 2008, during the global financial crisis. However, investors who added Onex to their portfolios in 2009 had sextupled their money by 2017.

Onex seems like the definition of an undervalued stock. That's why I added it to my Tax-Free Savings Account (TFSA) earlier this week. If the price drops further, I could add some more.

Foolish takeaway

Private equity and wealth management is a risky industry. During recessions, these companies tend to perform weakly. However, after shedding half its value, Onex seems to be oversold. The P/E ratio and price-to-book ratio are both around one. This could be the first opportunity to buy the stock for an attractive price in 12 years.

Long-term investors should certainly take a closer look here.

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