



Cheap Stocks to Buy Below Book Value

Description

It is a value investors' market. Despite the recent market rally, there are still several companies that have yet to recoup their pre-pandemic losses. In several cases, these cheap stocks are trading at values not seen in over a decade.

One of the most popular ways to value a stock is to analyze book value — that is, the amount shareholders would theoretically receive if all the assets are sold. In general, a price-to-book (P/B) ratio below 0.5 is a sign that the company is cheap.

It is best to compare the P/B against historical and industry averages. As of writing, the list of companies that have a P/B ratio below 0.5 is dominated by energy stocks. There are, however, several non-energy companies that are [trading at big discounts](#) to book value.

A cheap large-cap stock

While most stocks trading at these cheap valuations are small-to mid-sized companies, there is one large cap that stands out — **Brookfield Asset Management** (TSX:BAM.A)([NYSE:BAM](#)). Brookfield Asset Management is the parent company of the Brookfield family of companies. It is also among the top 10 largest Canadian companies by market cap.

It is also the only one trading at less than half times book value. With a P/B ratio of 0.44, Brookfield Asset Management is still trading at a 16% discount from its February high. Over the past five years, BAM has typically traded around 1.67 times book value, making BAM a cheap stock today.

It is important to recognize that the entire financial sector has yet to meaningfully recover from its March lows. As such, there are several industry bargains. The industry sports a median P/B ratio of 0.87, which means more than half of the industry is currently trading below book value. Once again, however, BAM looks to be among the cheapest stocks in the industry.

A beaten-up insurer

Joining Brookfield, **Power Corp of Canada** ([TSX:POW](#)) is the only other TSX-listed large-cap stock currently trading at less than 0.5 times book value. With a P/B ratio of 0.2, it is not only the cheapest insurer; it is among the cheapest stocks on the TSX Index.

Power Corp has always traded at a slight discount. However, it is now trading more than five times below its historical five-year average of 1.07 times book value. The insurance industry is among the cheapest, with a median P/B ratio of 0.76. As interest rates are near record lows, investors have all but abandoned the industry.

For its part, Power Corp is down 41% year to date, and it hasn't been this cheap since the Financial Crisis. This cheap stock yields a record 9.20%, and with a dividend that is sustainable, it makes an excellent income stock for investors. The industry is much better prepared for a low-rate environment than it was back in 2008-09 and has significant upside in an economic rebound.

A utility laggard

The last company on the list is a surprising one — **Atco Limited** ([TSX:ACO.X](#)), which is one of the most reliable income stocks on the TSX Index. At 27 years, it owns the fifth-longest dividend-growth streak in Canada.

Admittedly, seeing a utility company on the list is somewhat surprising. They have largely outperformed the Index [during this pandemic](#), with the S&P/TSX Capped Utility Index only losing 6% of its value year to date. As of writing, Atco has a P/B ratio of 0.46, which is by far the cheapest P/B ratio in the utility sector, which has a median P/B ratio of 1.56.

Further emphasizing its undervaluation, it is trading at a record low P/B value ratio. Dating back to 2000, it has not traded below book value. That is, until this pandemic in which this cheap stock is down by 32%. I suspect the company's underperformance is in large part due to slowing growth and exposure to Western Canada.

However, it looks to offer investors one of the best risk-to-reward ratios and offers a near record-high 4.68% yield.

CATEGORY

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TICKERS GLOBAL

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2. TSX:ACO.X (ATCO Ltd.)
3. TSX:BN (Brookfield)
4. TSX:POW (Power Corporation of Canada)

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Date

2025/08/14

Date Created

2020/05/19

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