



TSX Index: 3 Cheap Stocks to Buy Now

Description

As the markets rebound off lows, the **TSX Index** is quietly entering another bull run, leaving many investors wondering if the opportunity to [pick up stocks](#) on the cheap is in the rear view mirror.

Although the **S&P/TSX Composite Index** is up by 35% off lows, there are [several stocks](#) which have yet to rebound in a meaningful way. In particular, there are two sectors that stand out: Financials and Real Estate.

A cheap financial on the TSX Index

The Financial sector has been one of the worst-performing sectors on the TSX Index. Year to date, the **S&P/TSX Financial Index** is down by approximately 20%, underperforming the broader market by 10 percentage points.

One of the cheapest stocks in the industry is **Equitable Group**. Now operating under the name EQ Bank, Equitable is down by 40% in 2020. This alternate lender is positioning itself as Canada's "Challenger Bank" in a bid to disrupt the Big Bank domination.

Despite what EQ Bank's recent stock performance indicates, it is succeeding. It exited the first quarter with 110,000 EQ Bank customers, an increase of 44.7% over last quarter. Deposits increased by 22% to \$2.7 billion and it has strong CET ratios.

As of writing, EQ Bank is trading at only 6.70 times forward earnings and below book value (0.80). This is well below the industry and its own historical five-year average. The company has a strong history of execution and is well positioned to be one of the top-performing stocks on the TSX Index.

A cheap insurer

The insurance industry is also struggling to gain momentum. Not even best-in-class names such as **Manulife Financial** ([TSX:MFC](#))([NYSE:MFC](#)) have been spared. This is not surprising. Insurers were caught off guard in the 2008 Financial Crisis and in Manulife's case, it resulted in a dividend cut.

Investors are now underestimating the current strength of the industry. Learning from their previous shortcomings, insurers are better capitalized. Manulife has a capital ratio of 155%, with more than \$31 billion of excess capital over OFSI's supervisory target of 100%.

Similarly, the company's leverage ratio of 23% is below its targeted range of 25% and below the 30% it stood two years ago. The company is currently trading at \$17.25 per share, a steep discount to its book value of \$26.53 per share. At 0.65, Manulife has one of the lowest P/B ratios on the TSX Index

Although earnings are expected to dip in 2020, analysts excerpt robust double-digit growth in 2021 and beyond. Once the markets realize that insurers such as Manulife have the wherewithal to weather the current crisis, valuations will normalize. This will lead to outperformance relative to the TSX Index.

A cheap REIT

The only sector on the TSX Index worse off than Financials is Real Estate. Down by approximately 25% in 2020, Real Estate Investment Trusts (REITs) are having difficulty collecting rent. They are also dealing with a potential new reality which will impact business models post pandemic.

One company that should emerge strong is **SmartCentres REIT**. As a retail REIT, SmartCentres will face some headwinds. However, it is important to note that approximately 60% of rent is underpinned by strong, credit worthy companies such as **Walmart**, **Canadian Tire** and **Loblaw**.

In fact, Walmart has been a beneficiary of the current pandemic. As an essential service, volumes and sales have been robust. This bodes well for SmartCentres, as Walmart is the anchor of the majority (73%) of assets and accounts for 25% of revenue. Given the traffic that Walmart generates, properties anchored by this retail giant are in high demand.

SmartCentres is currently trading at just nine times forward earnings and 0.64 book value. It has an industry-leading occupancy rate of 98% with several growth projects in the pipeline.

This renders it one of the most attractive REITs on the TSX Index. Although current prices may remain pressured in the short term, it is an excellent time to accumulate.

CATEGORY

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Coronavirus
3. Dividend Stocks
4. Investing

Date

2025/06/28

Date Created

2020/06/02

Author

mlitalien

default watermark

default watermark