Bargain Hunters: 3 Ridiculously Cheap Value Stocks Trading Under $10

Description

On the surface, investing in value stocks is pretty easy. You buy stocks for under their intrinsic value, hold for a while, and then sell when the market price gets close to the true value. Simple, right?

Reality is a lot different. Determining the market price is easy, of course. Figuring out intrinsic value is the tough part. Investors can use metrics like price-to-book value and price-to-earnings ratios, but those are ultimately backwards looking. The bottom line can easily collapse as the business deteriorates, bringing down book value with it as losses mount.

Sometimes, however, certain stocks get so cheap that investors have priced in zero hope for the future. The gap between their current price and intrinsic value is so wide just a few things have to go right for the investment to work out very well.

Let's take a closer look at three such value stocks — dirt-cheap companies that just need a big catalyst or two to create some nice gains for shareholders.

Versabank

Canadian banks are cheap right now, thanks to COVID-19's impact on the economy. The least expensive among this group of value stocks is **Versabank** (TSX:VB).

Versabank is an online-only bank that uses technology to identify and serve underutilized parts of the sector. The company's operations include commercial mortgages, point-of-sale consumer financing, public sector financing, and growing deposits with cash coming in from more than 120 deposit partners. Net interest margins approached 3% in 2019, which was a better result than any of the bank's much larger competitors.

Yes, the company's results will take a step back in 2020. But profitability should bounce back quicklyas the economy improves. Remember, Versabank earned $0.85 per share in 2019. Shares currentlytrade at $6.40 each. That's less than eight times trailing earnings, which is a great bargain. Versabankalso trades at just 64% of its book value.

Melcor Developments

Melcor Developments (TSX:MRD) is a real estate development company and asset manager based out of Edmonton. It also owns a significant amount of real estate, with the majority of its portfolio in Alberta. Investors haven't been happy with the Alberta focus — thanks to the province's tepid economy and weak energy prices — which has driven shares much lower.

The company trades at a steep discount to its book value. Shares are trading for a little more than $6 each. Book value, meanwhile, is approximately $32 per share. That's an 80% discount to book value. The stock is also cheap on a trailing price-to-earnings ratio.

Melcor's property development business likely won't recover anytime soon. But its property management division should continue to post solid earnings. That part of the business generated $0.68 per share in earnings in 2019. Investors who buy today are paying less than 10 times earnings on that part of the business. All other parts — including property development, land sales, and the 55% stake in **Melcor REIT** — are included for free.

Chartwell

I won't sugarcoat it. The impact COVID-19 is having on Canada's senior living facilities is devastating. Our seniors helped build this country. They do not deserve this fate.

But at the same time, I fail to see a future without these homes dotting the landscape. The alternative is for younger generations to step up and take care of their elders — something most of us aren't willing to do.

This is why I'm bullish on **Chartwell Retirement Residences** (TSX:CSH.UN) over the long term.

Chartwell owns and operates more than 200 retirement facilities across Canada with a focus on independent supportive living. This part of the market comes with fewer regulations than long-term care, and it should grow nicely, as baby boomers continue to age and look to downsize from their homes.

Before COVID-19 hit, Chartwell had an excellent reputation as a solid operator with a steady growth plan. These plans have been put on hold, but the long-term demand for more seniors housing should still be there. Investors have a chance to invest in this powerful trend at a big discount compared to a few months ago.

And, as a bonus, investors get paid a generous 7.5% dividend to wait.

The bottom line on these value stocks

If you like buying cheap assets, then check out Versabank, Melcor, and Chartwell. Each of these sub-$10 stocks have solid upside potential in a few years.

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2. TSX:MRD (Melcor Developments Ltd.)
3. TSX:VBNK (VersaBank)

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