Revealed: 2 of the Cheapest TSX Stocks to Buy Right Now

Description

Value is all around us right now, even though most pundits would slam this market for being overvalued, given the slate of risks brought forth by the coronavirus. The **TSX Index**, in particular, has some ridiculously cheap stocks that ought to be scooped up by investors who desire a wide margin of safety and above-average capital appreciation potential.

For value investors who seek to pay less to get more, look beyond the traditional valuation metrics (such as P/E ratios) and weigh what you'll pay for the calibre of the business you're getting. This piece will take a closer look into two Canadian companies that are probably too cheap, even taking into consideration the pandemic-induced pressures that have been weighing them down.

IA Financial

IA Financial (TSX:IAG) is an underrated insurer that saw its shares take a beating back in February and March. The stock lost nearly 60% of its value over just a few weeks, and while the stock has since partially recovered, it remains down a staggering 40% from pre-pandemic heights and looks to be priced at a pretty compelling discount heading into July.

Nobody wants to get into the financial stocks right now. They're viewed as rancid by investors looking to steer clear of the damage caused by the pandemic. But if you're looking for a huge margin of safety and a shot at excess risk-adjusted returns, you've got to look to the stocks that nobody wants to own.

And right now, IA Financial, which sports one of the lowest dividend yields (a measly 4.1% after the stock's implosion), is an easy pass for many investors. The company has been rather conservative with its payout because management knows the business of insurance and wealth management can be fickle in times of economic hardship.

What IA's dividend lacks in size, it makes up for in stability relative to its peers. And with a more conservative mix of assets relative to its peers, I'd urge investors to consider scooping up the out-of-favour financial stock while it trades at a 10% discount to book (0.9 P/B) and 5.6 times EV/EBIT.

Alimentation Couche-Tard

Few other firms know M&A like **Alimentation Couche-Tard** (TSX:ATD.B), with the exception of **Berkshire Hathaway**. When most firms conduct M&A, they're paying a premium to the market multiple. Even if that multiple is higher than the value (often in the form of synergies), value can be destroyed for long-term shareholders.

For firms like Berkshire or Couche, the risk of such value destruction is eliminated by the capabilities of management. Such firms possess the expertise, willingness to conduct ample due diligence, and the discipline to only pull the trigger on deals that provide a high chance of creating substantial value for shareholders.

If the expected synergies or the price paid aren't right, both Couche and Berkshire are willing to walk away and take their money elsewhere.

The disciplined M&A model has allowed Couche to continue sustaining a double-digit growth rate as its business continues to mature and swell in size. The defensive growth company is also capable of growing in a recession and is a must-own for those looking for growth on the cheap.

After the latest pullback to $41 and change, Couche trades at 0.6 times sales, 3.5 times book, and 10.3 times EV/EBITDA, all of which are substantially lower than that of the stock's historical average multiples.

While Couche walked from its pursuit of Caltex Australia, it's still hungry to make a deal if it makes sense. Rumours are swirling that oil behemoth **Marathon Petroleum** may be in discussions with Couche over the sale of Speedway gas station and convenience stores.

With deep pockets amid this pandemic, Couche is in a spot to get more for less. Once an acquisition is announced, the stock is likely to be a major mover to the upside again, potentially toward the $50 mark.

In the meantime, Couche CEO Brian Hannasch and company will take their time and evaluate opportunities as they arise.

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