These 2 Value Stocks Are Absurdly Cheap Right Now

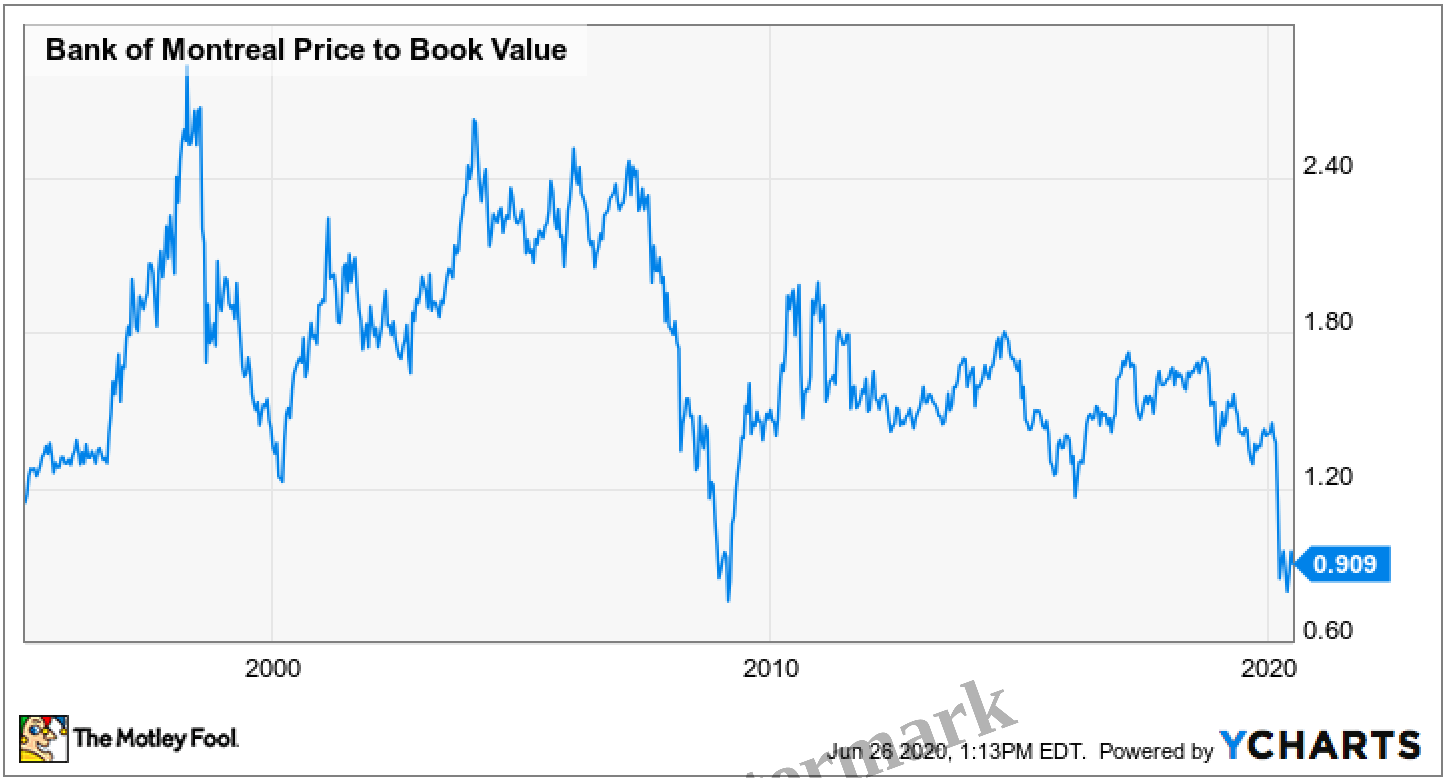
Description

Value investing is a good way to make money, especially when you invest in A-grade companies with high dividend yields. Get paid to wait with **Bank of Montreal** (TSX:BMO)(NYSE:BMO) and **Manulife** (TSX:MFC)(NYSE:MFC) now!

BMO stock

BMO is an absurdly cheap value stock. At writing, it trades at just under $71 per share, which is a price-to-book ratio of about 0.90.

It's trading at a bargain valuation that was last seen in the previous financial crisis!



BMO Price to Book Value data by YCharts. The long-term price-to-book history of BMO stock.

As shown in the chart above, the [big bank stock] can normally trade at a conservative target of 1.2-1.5 times book value. This would imply upside potential of 32-65%, representing a price target of approximately $85-$117.

[BMO stock] is also trading at about 7.5 times its normalized earnings, assuming a conservative multiple expansion to 11.3 times, the stock has 50% upside potential. This aligns with the book value price target range.

Low interest rates, economic contraction, and an expected rise in bad loans are weighing on big bank stocks like Bank of Montreal.

Notably, BMO generates about 59% and 32%, respectively, of earnings from Canada and the United States largely from its personal and commercial businesses. It will therefore witness a comeback on a North American economic recovery. It also has a wealth management segment that contributes about 17% to earnings.

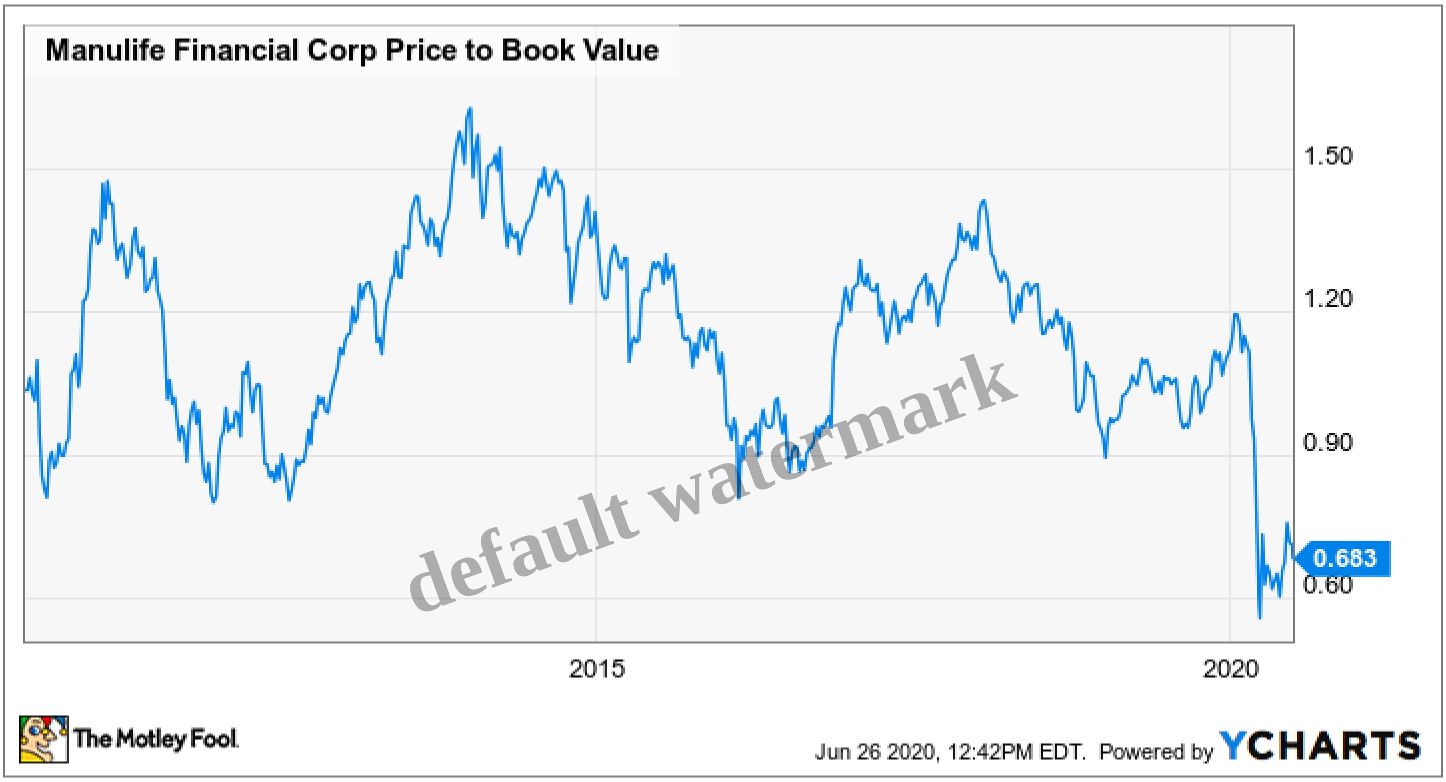
Analysts have a 12-month price target $76.10 per share on BMO stock, which implies near-term upside potential of about 7%. So, don't expect a quick trade from the bank.

The bank should serve well in your portfolio if you have a long-term investment horizon. It could take three to five years for things to normalize. Meanwhile, investors can collect a 6% yield from an investment in BMO stock today.

Manulife stock

Large-cap insurer Manulife is also absurdly cheap. At writing, it trades at just under $18 per share for a price-to-book ratio of about 0.68.

As shown in the chart below, 0.90 to one times book value would be a conservative target for the stock. It would imply upside potential of 31-46%, representing a price target of roughly $24-$26.



MFC Price to Book Value data by YCharts. The 10-year price-to-book history of MFC stock.

Manulife stock is also trading at about six times its normalized earnings. Assuming a conservative multiple expansion of 8.5 times, the stock has 40% upside potential, which aligns with the book value price target range.

One reason the dividend stock is discounted is because of low interest rates. It has a large fixed income portfolio, which is more than 85% of its entire investment portfolio.

Analysts have a 12-month price target $22.80 per share on the stock, which implies near-term upside potential of more than 26%.

No matter how long it takes for its valuation to normalize, MFC stock offers an attractive yield of 6.2% right now that adds to total returns.

The Foolish takeaway

The last time BMO and MFC stocks traded at these absurdly cheap valuations was during the last recession triggered by a financial crisis.

Get paid a 6% dividend yield while you wait for price appreciation. This means you only need to get a 1% rate of return from price appreciation to match the average long-term market returns.

It’s more likely that an investment today in these A-grade dividend stocks will deliver greater returns than the average long-term market returns of 7%.

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