Have $1,500 to Invest? This Battered Bargain Is Too Cheap to Ignore

Description

You've probably heard the talking heads on TV touting that the stock market is too expensive to justify any significant buying at this juncture. There are plenty of things to worry about in 2020: the COVID-19 pandemic, a bubble in the tech sector, and the upcoming U.S. election. While the slate of risks is significant, and certain stocks are overvalued, I'd argue that with tech stocks taken out of the equation, the stock market is insanely cheap.

So, if you've got a spare $1,500 sitting around collecting near-zero interest, now is as good a time as any to scoop up a battered bargain that may allow you the best shot at excess risk-adjusted returns over the next two years and beyond, as the economy heals from the insidious coronavirus crisis.

One stock that strikes me as too cheap to ignore is **Onex** (TSX:ONEX), a Canadian investment manager that owns stakes in various private equity enterprises. As of the end of June 2020, the company has north of $47 billion worth of assets under its management. Of late, the company has fallen into a massive slump, which was exacerbated by the scoop up of Canadian airline WestJet a year before the air travel industry fell under tremendous pressure from the COVID-19 pandemic.

A wiser way to play an air travel comeback

Shares of Onex have since recovered almost half of the ground lost in the February-March market crash. Still, shares remain severely undervalued and represent a dirt-cheap way to play a rebound from this unprecedented COVID-19 crisis. In a prior piece, I'd noted that Onex and its ownership of WestJet made it a far better (and cheaper) bet than the likes of an **Air Canada**. After the latest September pullback, the value proposition to be had in Onex stock is that much better, with shares trading at just 0.7 times book value.

While I can't say I'm a huge fan of all of Onex's private equity investments, I find it hard to take a raincheck on the name while it's trading at such a profound discount to its book value. Onex's managers are tremendously talented, having generated a gross internal rate of return of 27% on its realized private equity investments since being founded over three decades ago. That's sustained outperformance that's hard to come by these days.

The company's recent slump, I believe, ought to be forgiven by investors. The COVID-19 crisis blindsided Onex, like many other firms that were given little to no time to prepare for the disruption that was to come. For Onex and many other COVID-hit firms, it's just a case of being at the wrong place at the wrong time.

Foolish takeaway

Black swan events happen. Fortunately, Onex has an impressive liquidity positioning, which is more than enough to roll with the punches as they continue coming along. If you're looking for a way to bet on the rebounding of the airlines, Onex is the way to do it, as the firm has deeper pockets than the likes of an Air Canada, which, I believe, is at higher risk of insolvency if we're without a widely available working vaccine by 2021's end.

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