3 Top Value Stocks to Buy for October 2020

Description

The equity markets have made a stellar comeback since March. However, this also means stocks are arguably trading at expensive valuations. A sluggish economic environment coupled with tepid consumer demand would indicate that stocks are, in fact, more expensive than what they were before the COVID-19 sell-off.

But if you look closely, the market rebound has been primarily driven by technology stocks that have largely been immune to the virus. So, there are several options for value investors to buy quality stocks at a lower valuation. Let's take a look at three such stocks on the TSX to buy for October 2020 and beyond.

A small-cap REIT

The first stock on the list is **Dream Hard Asset Alternatives Trust** (TSX:DRA.UN), an income-producing real estate investment trust. The company is managed by Dream Asset Management, which is a subsidiary of **Dream Unlimited**, one of Canada's largest real estate companies.

The REIT is trading at $4.88, which is 40% below its 52-week high. The sell-off in early 2020 has meant the stock has a forward yield of a tasty 8.2%. Dream Hard Asset Alternatives Trust pays unitholders a monthly dividend of $0.03333 per share.

The REIT invests in real estate development as well as lending, providing investors with an alternative to traditional instruments such as stocks and bonds. The trust's properties consist of wholly owned and co-owned office properties and we can see what drove the decline in DRA's stock price in 2020.

As lockdown restrictions were imposed, offices were shut, which sent the stock lower in the first half of 2020. As the restrictions start to ease and normalcy resumes, occupancy rates will move higher, making this dividend-paying stock a good value bet right now.

A banking giant

When it comes to value stocks, it is difficult to overlook the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS). BNS stock is trading at $55.4, which is 28% below its 52-week high, indicating a forward dividend yield of 6.5%.

Investors continue to be wary of investing in banking companies due to high unemployment numbers and low interest rates. This might result in an uptick in loan default rates and falling profit margins.

However, investors should note that BNS has survived multiple recessions over the years and is one of the top Canadian companies given its huge market presence and strong fundamentals.

BNS stock is trading at a price-to-book multiple of 1.04 and a forward price-to-earnings multiple of 9.1. Analysts tracking the company have a 12-month average target price of $61, which is 9% above the current trading price. After accounting for its dividend yield annual returns can grow to 15%.

A utility heavyweight

Another value stock for investors is **Canadian Utilities** (TSX:CU). This company is trading at a forward price-to-book multiple of 1.7 and a price-to-earnings multiple of 15. Compare this with its expected earnings growth of 9.3% in 2021 and its forward yield of 5.3% and we can see that CU stock has significant upside potential.

Analysts tracking Canadian Utilities have a 12-month average trading price of $38, which is 19% above its current price.

Utility companies are safe bets during recessions, as they provide essential services that ensure a steady stream of cash flows. CU has $20 billion in assets, and its rate-regulated business helps it increase dividend payouts — something it has done for 48 consecutive years.

CATEGORY

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1. NYSE:BNS (The Bank of Nova Scotia)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CU (Canadian Utilities Limited)
4. TSX:DRM (Dream Unlimited)
5. TSX:MPCT.UN (Dream Impact Trust)

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