5 Top Value Stocks to Buy in October 2020

Description

Here are five value stocks trading at significant discounts from their intrinsic values.

Buy Manulife stock

Manulife (TSX:MFC)(NYSE:MFC) stock tends to underperform its peer, **Sun Life**. However, its current valuation is ridiculously low. At writing, at $18.89 per share, Manulife stock trades at about 6.4 times 2019's earnings.

Why did I use last year's earnings as a basis for the insurer's valuation? In the trailing 12 months, its earnings declined by about a third against the period a year ago. However, I believe its earnings will more than rebound within a year or two.

Even with the shaved earnings, MFC stock can still protect its dividend with a payout ratio of under 50%. Therefore, while waiting for its stock price to appreciate, shareholders can also earn a very respective yield of about 6% from an investment today.

Over the next three years, the stock can appreciate by approximately 70-100%.

Buy this value stock

Fairfax Financial Holdings (TSX:FFH) is also in the insurance industry. Investors, who timed their buy and sale points correctly, have outperformed via Fairfax stock with annualized returns of 15-18%. The stock is at the best bargain it has ever traded in 15 years! That's why I helped myself by buying some shares recently.

Notably, FFH stock can move in a highly unpredictable fashion due to the many factors that drive the ups and downs of the stock. One factor is that it maintains a large investment portfolio, including cash and short-term investments (about 25% of the portfolio), bonds (59%), preferred stocks (1%), and common stocks (10%). That said, these investments can be a welcomed diversification for retail investors' portfolios.

FFH management aims to increase the value stock's book value per share by about 15% per year going forward. If it can achieve that over the next three to five years, the value stock can trade at a much higher multiple — and upside of 45-70% is probable.

Buy diversified real estate

Retail real estate owners have not been happy this year as their cash flow has been cut from pandemic disruptions. A near-term concern is that economic lockdowns can happen again if COVID-19 numbers surge.

Diversified REITs have also been hit but not as much as pure retail REITs. In fact, the diversified nature of these real estate companies have kept ample cash flow coming in.

I believe **Brookfield Property Partners** and **H&R REIT** will survive and make a marvellous comeback over the next few years, while paying remarkable dividends.

At writing, they yield 10.3% and 6.8%, respectively. BPY pays out every three months, and H&R REIT pays cash distributions monthly. The former has upside potential of at least 40% over the next few years, while the latter can double in price!

Both companies have office, residential, and other non-retail assets that continue to be resilient in today's macro environment.

Last but not least

The big Canadian banks have performed poorly year to date. Specifically, **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) stock has fared the worst against its peers and is trading at a multi-year low due to its greater exposure to resource regions.

That said, the inevitable eventual economic expansion after this year's economic contraction can trigger an outperformance in the undervalued stock. Investors will need to time the market and watch the stock more closely if they wish to use a buy low and sell high strategy on the stock.

Too, investors can also be a passive investor in cheap BNS stock for outsized dividend income in the banking space. The stock provides a safe 6.4% yield at writing, whereas it'd be attractive at a 5% yield in a normal market.

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TICKERS GLOBAL

1. NYSE:BNS (The Bank of Nova Scotia)
2. NYSE:MFC (Manulife Financial Corporation)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:FFH (Fairfax Financial Holdings Limited)
5. TSX:MFC (Manulife Financial Corporation)

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