2 Unloved Value Plays to Buy for the Post-COVID World

Description

The stock market just came off its best months in decades and the best November in just a few years shy of a century.

The “expensive” market became that much more expensive. Although it seems a correction is long overdue, I’d urge investors not to make drastic moves with their portfolios at this juncture, whether it be buying, selling, or rotating between asset classes.

In a prior piece, I went into great lengths about why I thought the markets weren’t as “expensive” as they seemed. While stocks, on the whole, justify above-average valuation metrics, one must never lose sight of the price they’ll pay for what they’ll get. You see, many stocks may be trading well above that of their historical averages.

Those who are reliant on traditional valuations metrics such as the price-to-earnings (P/E) or price-to-sales (P/S) multiple may have a tougher time evaluating companies these days. Although more challenging, due diligence is still as important as ever to achieving above-average returns over the long run.

This piece will have a closer look at two deep-value stocks that have been so battered such that their traditional valuation metrics are still miles below that of their historical averages. Each name took a beating from the OVID-19 crisis, and their recovery trajectories remain uncertain, even with a handful of effective vaccines ready to be rolled out.

If you’re willing to take on short-term pain for a shot at potentially outsized gains over the next few years, consider **IA Financial** (TSX:IAG) and **Canadian Western Bank** (TSX:CWB), two oversold financials that could room to run as things gradually return to normal over the next 18 months.

IA Financial

IA Financial is a lesser-known Canadian insurance play that’s also ridiculously misunderstood. Canadian insurance stocks tend to sport handsome yields in excess of 3% under normalized conditions. Today, after a brutal coronavirus crash and a partial rebound, most Canadian insurance stocks like Manulife have yields north of 5%, making IA and its 3.3% yield less compelling.

What IA lacks in the size of its payout it more than makes up for in value, even after the stock's remarkable bounce off its March lows. The stock trades at just 1.1 times book value and 0.5 times sales at the time of writing. While there's still some baggage to be had with the name, I'm optimistic over its longer-term potential with the growth potential behind its promising wealth management business.

Heading into 2021, the stock's newfound momentum isn't about to slow anytime soon. IA is dirt-cheap, and I suspect IA will lead the upward change in a financial relief rally over the next year and beyond.

Canadian Western Bank

Canadian Western Bank (TSX:CWB) is another bruised financial stock that's found its footing in recent months. Once the good vaccine news was revealed, the banks were made great again, and regional bank CWB has not looked back, with shares up around 96% from its March lows.

As a bank with more than its fair share of loans in the ailing province of Alberta, the stock got punished. The stock overextended to the downside, and the upside correction thus far has been epic.

While CWB isn't out of the woods yet, shares are on their way back to pre-pandemic levels. Things aren't as bad as they seemed during the first wave of coronavirus cases, and with PCLs pulling back to manageable levels, investor focus could soon return to earnings growth potential in 2022 and beyond.

At 1.0 times book value, CWB is one of the cheapest ways to play a Canadian banking rebound and would encourage deep-value investors to take a shot on the name.

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1. Bank Stocks
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TICKERS GLOBAL

1. TSX:CWB (Canadian Western Bank)
2. TSX:IAG (iA Financial Corporation Inc.)

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