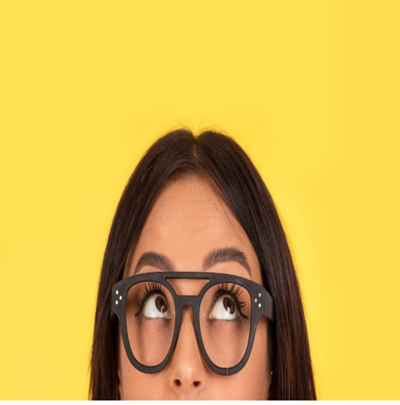

1 of the Best Cheap Canadian Stocks to Buy Right Now

Description

We've heard numerous times how frothy some Canadian stocks have become after a glorious first half of the year. Based on history, yes, many stocks boast traditional valuation metrics (think the price-to-earnings or price-to-sales ratios) that are tilted heavily toward the higher end of the range. But relative to other assets, such as fixed-income debt securities and real estate, stocks aren't as expensive as they seem.

Sure, alternative assets like gold, commodities or even cryptocurrencies like Bitcoin are places to hide your cash if you're at all wary about "steep" valuations on equities. Given how easy it's become to trade such alternative assets, however, are such places really safe havens?

Cheap dividend stocks may be the best place to "hide" if you're wary

Undoubtedly, many alternative assets have become securitized. And that makes them vulnerable to cash crunches such as the one we suffered during the 2020 stock market crash. In the heat of the panic, everything from bond funds to gold and even Bitcoin took a dive as investors rushed to raise some cash. It was ugly, but it shows that there aren't really that many places to hide your wealth these days. Sure, you could hoard cash, but by hoarding cash, you'll feel the full brunt as inflation continues working its insidious effects.

Investors, especially those who are overly cautious, are in a tricky spot right now. And the historical overvaluation of many high-quality Canadian stocks, I believe, is not an indication that this current market rally will come to a crashing halt. While a correction may be overdue, none of us will time it with precision. That's the nature of corrections. So take any correction projections with a grain of salt, as Mr. Market has and will continue to act in an incredibly unpredictable way.

Stocks with high price-to-earnings (P/E) ratios aren't as expensive as they seem. Why? First, trailing P/E ratios are factoring in a year that was anything but normal. Many companies, especially reopening plays, felt the impact of COVID-19 lockdowns. As such, earnings are artificially low, and the last year of earnings is not a great indicator of what's to come as we inch closer to post-pandemic normalcy.

One of the best cheap Canadian stocks may be masked by an artificially high P/E ratio

So, don't pay too much merit to trailing P/E ratios, as they've become quite a weak tool for conducting a valuation of a company. Instead, focus on the road ahead and what earnings and sales will be under normalized conditions. Take **Restaurant Brands International** (TSX:QSR)(NYSE:QSR), whose shares seem "pricey" at around 30 times trailing earnings and 5.6 times sales.

Amid lockdowns and dining rooms closures, Restaurant Brands saw its sales dampened. And while lost sales in the fast-food world are lost for good (you won't order 10 times as many whoppers once Burger King's dining rooms open near you), I think many investors are underestimating the firm's ability to grow on the other side of this pandemic.

Not only will sales normalize, but the company could face an explosion in sales growth as the firm's modernization and digital efforts finally work their way into future quarters. Restaurant Brands may be dismissed as frothy, given its high P/E ratio. But the multiple may be clouding the real story and preventing value investors from capitalizing on the opportunity to pay three quarters to get a dollar, so to speak.

Indeed, I see multiple expansions on the horizon. And if the 3.5% dividend yield entices you, I'd scoop up shares, as they're not guaranteed to stay depressed for an extended duration.

CATEGORY

1. Dividend Stocks
2. Investing

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Date
2025/08/23
Date Created
2021/08/13
Author
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