Top 3 Cheap Stocks Trading for Less Than 10 Times Earnings

Description

The price-to-earnings (P/E) ratio is popular with investors for good reason. This simple number summarizes a lot about the company's underlying fundamentals and prospects. Cheap stocks consistently have low P/E ratios. The inverse of the ratio also offers investors the "earnings yield" of a particular stock, which makes it comparable to other opportunities.

Now, the average P/E ratio of the TSX 60 Index is 18.8. Any stock with a lower ratio is relatively underpriced. With that in mind, here are some high-quality stocks that are trading at less than 10 times earnings.

Cheap stock #1

Power Corporation of Canada (TSX:POW) is trading at a P/E ratio of 9.86. That implies an earnings yield of roughly 10%. The company pays less than half of that back to shareholders in the form of a dividend. The dividend yield is 4.6% at the moment, which is also above average in this economic climate.

Power Corp's core business of insurance and retirement services is reliably boring. That's what makes its cash flows so attractive. But the company also has some exposure to growth opportunities. The company's venture capital arm has investments in several FinTech startups, including household names such as KOHO and Wealthsimple.

In short, this is an excellent cheap stock to have on your radar.

Cheap stock #2

Killam Apartment REIT (TSX:KMP.UN) is yet another cheap stock that deserves attention. Apartment rents and valuations are soaring, as people head back to cities. Over the past year, Killam's underlying operational metrics have surged. Net income is up 17% while adjusted funds from operations is up 13%. This is clearly reflected in Killam's stock, which is up 34% year to date.

Despite that surge, the stock is still cheap. It trades at a P/E ratio of just 9.5. That's an earnings yield of 10.5%. That phenomenal rate of earnings should eventually be reflected in Killam's expanding portfolio of assets or a growing dividend rate. Keep an eye on this opportunity if you're bullish on city real estate.

My Foolish colleague Aditya Raghunath believes the stock could gain another 12% next year. That would be impressive, given the uncertainty we face in the rest of the economy in 2022.

Cheap stock #13

Manulife Financial (TSX:MFC)(NYSE:MFC) is an underappreciated financial titan. The stock is currently trading at $23.85 — the same level as in 2016! However, the underlying company has been growing steadily over those years.

That means the valuation has shrunk. Manulife currently trades at a price-to-earnings ratio of seven! This implies an earnings yield of 14.3%. A fraction of that is paid out in dividends, which is why the dividend yield is just 4.7%.

Manulife's exposure to Asia makes it more diversified and resilient than many of its domestic peers. The stock needs a catalyst to unlock gains for shareholders. Meanwhile, it's an excellent bet for investors seeking passive income.

CATEGORY

1. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:KMP.UN (Killam Apartment REIT)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:POW (Power Corporation of Canada)

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Date
2025/08/15
Date Created
2021/12/10
Author
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