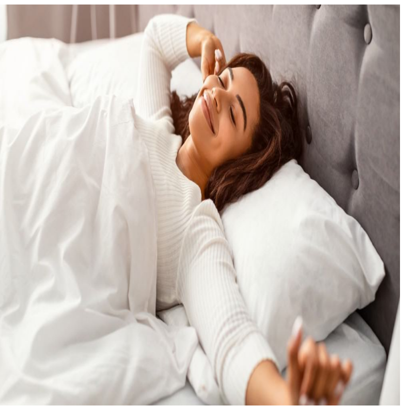

Value vs. Return Potential: 3 Stocks for the Right Balance

Description

Getting the most "bang for your buck" is a healthy approach to spending *and* investing. For investing, it's tied to the value and return potential of an asset. And like spending, the best discount doesn't always mean the best deal. It's crucial that you take the return potential of the discounted/undervalued asset you are thinking about buying into account. A deadweight asset, even one bought at a discount, will be no credit to your portfolio apart from mitigating your losses.

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However, these three attractively valued stocks also offer an amazing return potential.

The undervalued dividend beast

When taking return potential into account, dividends are just as important as capital appreciation, even more so if you are buying the asset for passive income. Here, **MCAN Mortgage** (TSX:MKP) shines quite bright. The mortgage company is currently trading at a price-to-earnings ratio of 6.5 and a price-to-book of 1.3, making it a great value bargain.

MCAN offers a highly generous 7.6% yield, backed up by a stable payout ratio of 49.6%. After slashing its dividends in 2018, the company has grown consistently over the last three years and even issued a generous special cash dividend in early 2021. However, the payouts have yet to reach the 2018 level. Still, at its price, the yield is phenomenal, especially considering the financial stability.

A powerful growth stock

Relatively few REITs are as cherished for their capital appreciation potential as they are for their dividends, but **Granite REIT** (TSX:GRT.UN) is near the head of that pack. The REIT has always been a great growth stock, but it has been soaring higher than usual since the 2020 market crash. Thankfully, the 10-year CAGR of 17% is still realistic and relatively sustainable, and at its current value, a great deal.

The REIT is trading at a price-to-earnings of just 5.7, and the price-to-book is 1.3. The reason for this amazing discount is that thanks to the e-commerce boom, which only accelerated post-pandemic, the light industrial orientation of the Granite and its logistics/warehouse portfolio became incredibly attractive. And though the 3.1% yield is not comparable to MCAN, it's still quite decent.

A banking stock

National Bank of Canada (TSX:NA), with its price-to-earnings of 11.5, is not undervalued in the conventional sense but compared to the rest of the banking sector, it is. And the return potential of the bank is quite attractive, especially if you buy it during a dip, because you will be able to lock in a much more attractive yield than the current 3.3% the bank is offering right now.

Despite being the smallest of the big six banks in Canada, the National Bank has been the best growth stock among them, especially during the last decade. Its national and international penetration lags far behind the bigger players in the industry, but if the bank can make it big in the digital landscape, which is the future of banking right now, it might move up the ranks in the future.

Foolish takeaway

Two out of three undervalued stocks, regardless of their return potential and attractive valuation, might not be worth buying right now. MCAN can be bought any time during a dip, which is frequent thanks to its fluctuating nature, but both National Bank and Granite might go through a correction, and that's when you should think about buying them.

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CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. TSX:GRT.UN (Granite Real Estate Investment Trust)
2. TSX:MKP (MCAN Mortgage Corporation)
3. TSX:NA (National Bank of Canada)

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