Cheap Stocks Trading at P/E Ratios Below 10

Description

The stock market has gone from mania to bust within half a year. Stocks are now cheaper than they've been since the pandemic erupted in 2020. Many of them are trading at price-to-earnings (P/E) ratios below 10!

However, some of these seemingly cheap stocks are value traps that could see slower growth and declining earnings ahead. Investors need to avoid these traps and seek out high-quality companies with better prospects. Here are the top three cheap stocks on my radar now.

Cheap stock #1

The bull case for oil and gas is simple — there's more demand and a lack of supply. The bear case is that demand might not be as high as expected, but supply won't catch up anyway. Put simply, oil prices could either go much higher or stay flat for the near term. Both scenarios are excellent for energy producers like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

Canada's largest oil and gas producer has seen its stock surge 720% since mid-2020. However, earnings have accelerated much faster. CNQ reported $10.7 billion in revenue and $3 billion in net income in its latest quarter, up 61% and 125%, respectively, from the previous year.

Analysts expect the company to report roughly $10 per share in earnings over the course of this year. That means the stock (currently trading at $86.7) is at a P/E ratio of 8.6. That ratio could be even lower if you assume *higher* energy prices ahead.

Cheap stock #2

Investors have punished **Manulife Financial** (TSX:MFC)(NYSE:MFC), despite the fact that rising interest rates should be good for its business.

The stock has lost 17% of its value since February. However, the underlying business seems to be holding up well. Manulife's asset management segment attracted net inflows of $6.9 billion in the first quarter of this year. Over the same period, it reported net income of $3 billion — up from $2.2 billion in the previous year.

The stock is now trading at a P/E ratio of just 4.9. It also offers an impressive 5.7% dividend yield. Insiders, such as Independent Corporate Director Claude Prieur, have been boosting their personal stakes in the company. Keep an eye on this cheap stock.

Cheap stock #3

Bank of Montreal (TSX:BMO)(NYSE:BMO) is another beaten-down financial stock. Investors are concerned about a correction in Canadian home prices. BMO is certainly overexposed to this. However, the bank could see some tailwinds from rising interest rates, which haven't been priced in yet.

Investors could also see positive catalysts from the acquisition of Bank of the West, which gives the company exposure to the U.S., where the housing market is far more resilient.

BMO stock trades at a P/E ratio of 7.5 and offers a dividend yield of 4%. It could see some downside in the near term, but the stock is simply too cheap to ignore. Investors should keep it on their watch list.

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2. NYSE:CNQ (Canadian Natural Resources)
3. NYSE:MFC (Manulife Financial Corporation)
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5. TSX:CNQ (Canadian Natural Resources Limited)
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