3 Undervalued Stocks Trading Below 10 Times Earnings

Description

It's a tough market. Inflation is high while companies are cutting their earnings forecast. The stock market has shed billions of dollars in aggregate value since the start of the year. Despite this correction, some stocks are still overvalued. Others, however, have dipped into deep-bargain territory.

Here are the top three undervalued stocks that are trading for less than 10 times earnings per share.

Undervalued stock #1

Bank of Montreal (TSX:BMO)(NYSE:BMO) deserves a spot on the top of this list. As one of Canada's largest financial institutions, BMO is in a strong position. The bank saw its net income roughly triple from $1.3 billion to $4.76 billion year over year in its most recent quarter.

Much of that excess cash should find its way to shareholders. BMO pioneered shareholder rewards in Canada and has a 200-year track record of regular dividends. This year, the company has bumped up its quarterly payout to $1.39. That works out to a dividend yield of 4%.

However, the company's earnings yield far exceeds that rate. BMO stock is currently trading at a price-to-earnings ratio of just 7.5, which implies an earnings yield of 13.3%. In other words, it has much more room for dividend growth and shareholder rewards. The stock is significantly undervalued.

Undervalued stock #2

Runaway oil prices have pushed oil stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) higher. CNQ is up 81.5% over the past year. However, earnings have expanded much faster.

In its most recent quarter, CNQ reported a 125% year-over-year jump in net income. The growth rate could slow down considerably in the months ahead, but the company's margins could remain strong if crude oil continues to trade above $100.

This isn’t being fully reflected in CNQ’s stock price. The stock trades at a price-to-earnings ratio of just 10.8. That implies an earnings yield of 9.25%. Then company pays less than half of that in dividends, which is why the dividend yield is just 3.5%.

If the energy crisis continues, producers like CNQ could bump up their dividends and buyback programs. This undervalued sector should be on your radar for the foreseeable future.

Undervalued stock #3

The retail sector has faced a deeper correction. Investors are worried about consumer confidence in the face of historic inflation. However, these concerns have made some retail stocks cheaper than their valuations justify. **Canadian Tire** (TSX:CTC) is an excellent example.

The company reported 22.7% growth in net income in its most recent quarter. Sales surged 15.7% over the same period. Robust revenue and net income have convinced the management team to boost shareholder rewards by 25%. This year, investors can expect a dividend yield of 3.77%.

Meanwhile, the stock trades at a price-to-earnings ratio of just 9.10. Even if net income growth slows down to 10% in the year ahead, the stock is trading at a price-to-earnings-to-growth ratio below one. Put simply, it’s an undervalued opportunity in the beaten-down retail sector.

CATEGORY

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TICKERS GLOBAL

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2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CTC.A (Canadian Tire Corporation, Limited)

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