Top 3 Undervalued Stocks With P/E Ratios Under 5.5

Description

Price-to-earnings, or P/E, ratios have declined substantially over the past year. The stock market's average P/E ratio has dropped from 26.8 in 2020 to 19.8 today. Put simply, the market is much cheaper than it used to be.

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Some stocks are trading even cheaper than average. In fact, there are plenty of stocks with P/E ratios in the mid-single digits. A P/E ratio of five implies an earnings yield of 20%. That's extraordinary given the current rate of inflation and economic growth. Here are some of the stocks trading around these levels today.

Undervalued stock #1

Forest products producer **West Fraser Timber** (TSX:WFG)(NYSE:WFG) was trading at a P/E ratio of just 2.5 last month. Concerns about the rapidly declining value of lumber pulled the stock lower. However, the price of wood is still far higher than at any point since 2018. Lumber is still in high demand and supply could take years to catch up.

West Fraser stock surged this week as a rival partnered with a private investor to seek an acquisition deal for the company. CVC Capital and Kronospan could purchase the company for a premium to its publicly traded valuation. Such a deal would quickly unlock value for long-term shareholders. Keep an eye on this undervalued stock.

Undervalued stock #2

Energy companies are similarly undervalued because of the volatility in the oil and gas market. Crude oil has lost more than a fifth of its value in the past month. Investors are concerned that a recession could push demand for energy even lower. However, mid-cap companies like **Tamarack Valley Energy** (TSX:TVE) could enjoy substantial cash flows even at lower prices.

Experts believe the company could generate healthy free cash flows, even if crude oil drops below

US$80. At the moment, the stock is trading at a P/E ratio of just 3.9. The *forward* P/E ratio could be under eight, even if the company's earnings were halved. That seems like an attractive deal for long-term value investors.

Undervalued stock #3

Alaris Equity Partners Income Trust (TSX:AD.UN) is another undervalued stock. It's currently trading at a P/E ratio of 5.4. That implies an earnings yield of 18.5%. The company delivers a huge chunk of these earnings as shareholder rewards. The dividend yield is 8% right now.

Alaris could be in a tougher position than the other stocks on this list. The company is a private investor in mid-sized businesses. It offers growth capital in exchange for preferred stocks. That means it can target a high double-digit return from fixed dividends. However, private businesses could see some pressure on cash flows if the economy dips into a recession.

Alaris stock may have already priced in this risk. That's why it's trading at such a low valuation. However, investors need to be aware of these risks before investing in this relatively undervalued stock.

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CATEGORY

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TICKERS GLOBAL

1. NYSE:WFG (West Fraser Timber Co. Ltd.)
2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:TVE (Tamarack Valley Energy Ltd)
4. TSX:WFG (West Fraser Timber Co. Ltd.)

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