Value Investors: 3 Top Cheap TSX Stocks to Buy in August

Description

Value investors are looking for stocks that are trading below their intrinsic values. On a rebound to their fair valuations, these stocks could provide above-average price appreciation, allowing investors to realize sizeable capital gains. These three top cheap **TSX** stocks are excellent considerations for buying in August.

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One cheap TSX stock to buy in August

Great-West Lifeco (TSX:GWO) is a life and health insurance company that generates stable cash flows from the premiums it receives from its customers. The insurer has been profitable through economic cycles. This has resulted in the accumulation of retained earnings on its balance sheet. At the end of the first quarter (Q1), its retained earnings were almost $16.7 billion. This buffer could cover about 8.5 years of dividends.

The company is well positioned to not rely on the retained earnings, though. Its trailing-12-month (TTM) payout ratio was sustainable at approximately 58% of earnings.

The price-to-earnings ratio (P/E) is the most commonly used valuation metric. A single-digit P/E may suggest that a stock is cheap. At $31.12 per share, Great-West Life stock trades at about 9.2 times earnings.

According to **Thomson Reuters**, analysts estimate GWO can achieve an earnings-per-share growth rate of 10.4% over the next three to five years. So, the stock is indeed cheap. The dividend stock also offers a generous yield of close to 6.3%, which compensates the price appreciation waiting time of patient investors.

An undervalued Canadian bank stock to buy this month

Big Canadian bank stocks are wonderful considerations for passive income. Like Great-West Life, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) stock also trades at a single-digit P/E.

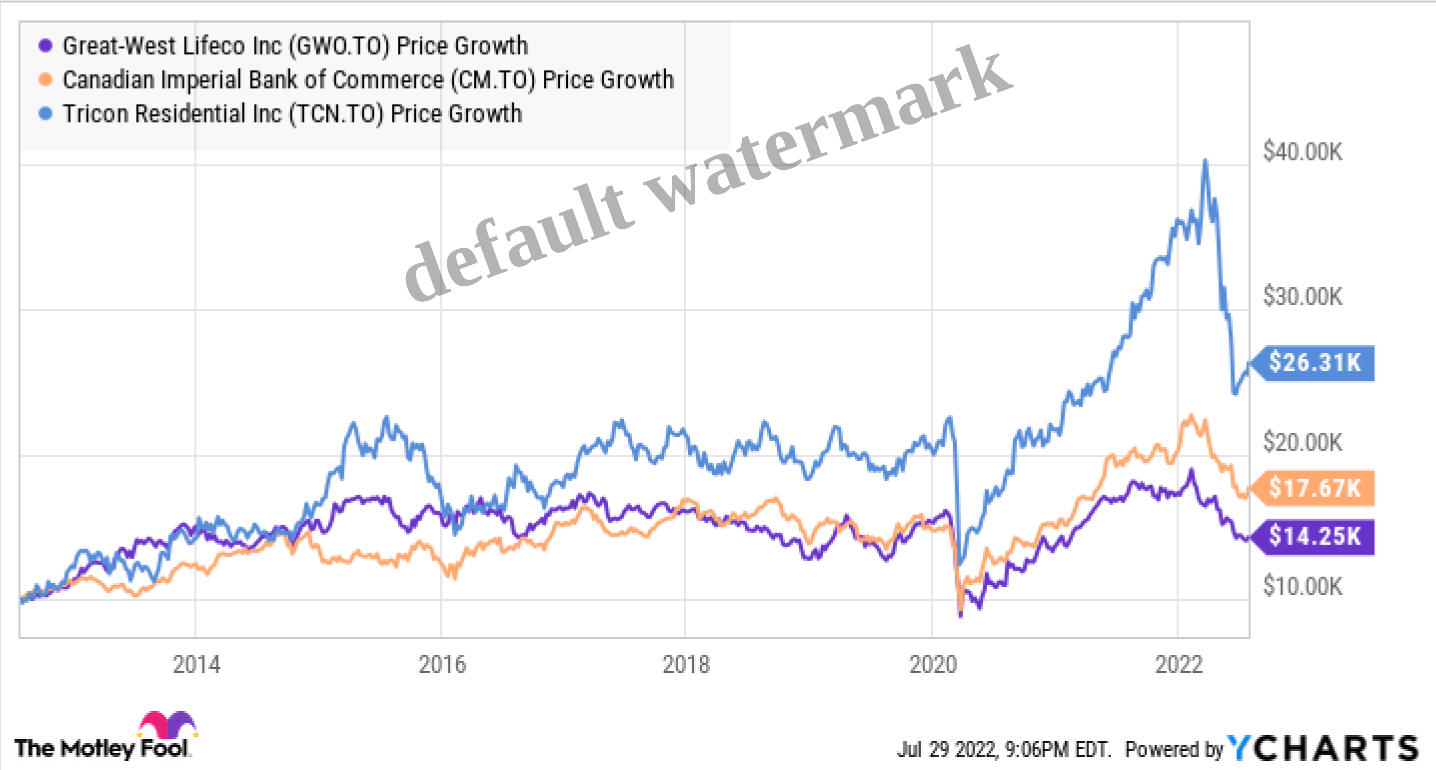
At $64.78 per share, the bank stock trades at about 8.7 times earnings, while it has a long-term normal valuation of about 10.1 times. Therefore, the high-yield stock is discounted by about 14%.

At the end of fiscal Q2, CIBC's retained earnings were over $27.5 billion, which could cover about 9.4 years of dividends. The company doesn't need its retained earnings to protect its dividends, though. Its TTM payout ratio was sustainable at roughly 46% of earnings.

Big Canadian banks are even more profitable businesses than insurance companies, as is the case with CIBC and Great-West Life. Therefore, if you buy Great-West Life as a value stock for income, there's no reason not to pick up some CIBC shares as well. CIBC offers a 5.1% yield at writing.

This cheap stock has outperformed the other two

In the long run, **Tricon Residential** (TSX:TCN)(NYSE:TCN) stock has outperformed Great-West Life and CIBC. So, in your quest to search for cheap stocks, you should also explore Tricon. The graph below displays the growth of an initial lump sum $10,000 investment.



GWO, CIBC, and TCN data by YCharts

One reason Tricon has higher growth potential is that it's a smaller-cap company. Its market cap is about $3.8 billion versus Great-West Life and CIBC's $29 billion and $58.5 billion, respectively.

Reuters describes Tricon as a Canada-based rental-housing company that caters to the middle-market demographic in the United States and Canada. This target market results in a lower annualized turnover, translating to more stable cash flow generation.

About 90% of Tricon's portfolio is in the U.S. Sun Belt region. It owns and operates a growing portfolio of single-family rental homes (31,032) and multi-family rental apartments (approaching 8,000). In its

July presentation, Tricon reported decent single-family rental same-home net-operating-income growth of 11.6%.

TCN Price to Book Value data by YCharts

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Because of the real estate assets it owns, the price-to-book ratio (P/B) is a suitable valuation metric for Tricon. The value stock appears to be relatively cheap according to its long-term P/B valuation range shown in the above graph. At $10.92 per share at writing, the general consensus across 10 analysts on *Yahoo Finance* implies near-term upside of 39% is possible.

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2. TSX:CM (Canadian Imperial Bank of Commerce)
3. TSX:GWO (Great-West Lifeco Inc.)
4. TSX:TCN (Tricon Residential Inc.)

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