3 Deep-Value Stocks on Sale in August

Description

2022 is shaping up to be the year of value stocks. In the same period when tech stocks are falling, energy stocks and utilities are giving their best performances in years. Even Canadian banks, which are down for the year, are beating the NASDAQ tech stock index.

This year, interest rates are rising, which is making the growth offered by tech stocks less appealing. The more return is available risk-free (e.g., from savings accounts), the less-valuable future growth becomes. That fact tends to harm tech stocks during periods of economic tightening. So, value stocks are predictably outperforming tech stocks this year.

Value stocks can produce great returns during periods of high interest rates. There is a specific category of value stocks — deep-value stocks — that can do even better. Deep-value stocks are the cheapest of the cheap, often trading at less than book value. In this article, I will look at three deep-value stocks that could reward investors handsomely in the future.

Manulife

Manulife Financial (TSX:MFC)(NYSE:MFC) is a Canadian insurance company that also has banking operations. It is the very definition of a deep-value stock, as it trades at just 0.89 times book value and 7.4 times earnings. If those terms sound unfamiliar, book value is the value of assets after you subtract debt, and earnings are profits. So, MFC trades for *less* than the value of what it owns, and its yearly profit could buy back the entire company in 7.4 years. It's very rare for a stock to get this cheap.

Does that necessarily mean that MFC is a buy?

No. Sometimes stocks are cheap because they are in decline. A company trading for less than its net assets may not be good buys if debt is rising faster than assets — eventually, it will no longer be as cheap. However, MFC's long-term revenue growth is positive (if underwhelming), and its profit trend is actually pretty strong (24.4% per year over five years). Life insurance is a risky business, for sure, but MFC's financial metrics make it worth researching further.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is a Canadian bank that trades at 8.6 times earnings, and 1.3 times book value. This isn't quite as cheap as Manulife, but it's fairly cheap. Benjamin Graham, Warren Buffett's mentor, considered price-to-earnings (P/E) multiples below 10 and price-to-book ratios below one to be "deep value." So, CIBC checks the box on one of the two main value metrics.

CIBC is a Canadian bank, which means it could lose money if the housing bubble bursts. If people default on their mortgages due to rising interest rates, CM's loan portfolio will take a hit. This might be why CIBC stock is cheaper than other Canadian banks — most of its competitors have branches in foreign countries where the housing market is not so overheated. CM is no surefire buy, but it merits a look.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a Canadian oil stock that trades at just 9.8 times earnings and 4.8 times operating cash flow — shockingly cheap. There are people who say that the stock trades at 4.8 times next year's earnings, but forecasts like that can sometimes be wrong. 9.8 is probably the more "accurate" P/E ratio for SU.

At any rate, SU stock is cheap compared to *last* year's earnings, oil prices are close to $100, and we still haven't seen second-quarter results yet. So, this is one deep-value play that's worth checking out.

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2. NYSE:MFC (Manulife Financial Corporation)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:CM (Canadian Imperial Bank of Commerce)
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