2 Cheap Canadian Stocks for Value Investors

Description

The Canadian stock market has rebounded close to 11% from its recent bottom in July. But if you shop around, you can still find good value. Value-conscious investors can look into these relatively undervalued Canadian stocks that pay out nice dividends.

One cheap energy stock

Whitecap Resources (TSX:WCP) is one cheap Canadian oil stock. It trades at about three times cash flow at below $9 per share. Thanks to higher energy prices, its profits has skyrocketed, and its balance sheet improved dramatically.

Its trailing 12-month (TTM) operating cash flows of $1.69 billion were 2.6 times the 2019 "normalized" levels before the COVID-19 pandemic. And its free cash flow in this period was over $1 billion — 4.4 times the 2019 levels — despite 56% greater in capital investments. It also improved its operating margin by 122% to 38% versus in 2019. Additionally, it reduced its long-term debt by $331 million from the 2019 levels.

As a result, the oil-weighted producer has doubled its dividend in the last 12 months. It now offers a competitive dividend yield of close to 5%. Analysts believe the stock has +70% upside over the next 12 months.

Of course, there's the uncertainty in energy prices that can change quickly without warning from macro events that are uncontrollable by energy producers. The Russia-Ukraine war drove global energy prices higher. What will be the next event that drive energy prices in whichever direction?

A value Canadian bank stock

For an investment with more certainty, investors can turn to **Canadian Western Bank** (TSX:CWB), which has a relatively large loan portfolio in resource-rich province, Alberta. That said, over the years, the bank has reduced its exposure to the province to 31% of its total loans. Its five-year loan-growth rate was solidly at about 8.8% with its two other areas of growth in British Columbia (33% of loans) and Ontario (24%).

Investors may be concerned of CWB's meaningful exposure to Alberta, but they should note that oil and gas production loans make up less than 1.2% of its total loans. A third of its loans are general commercial loans, and 21% are commercial mortgages. Commercial loans are perceived to be riskier than personal loans.

The bank's smaller size and exposure to Alberta and commercial loans may place a discount on the Canadian bank stock. However, favourable environments have triggered the market to bid up the stock to higher valuations multiple times in the past.

Right now, it trades at about 7.6 times earnings, which is cheap. It also offers a safe 4.5% yield on a recent payout ratio of 38%. Valuation expansion and earnings growth over the next three to five years could potentially drive total returns of 20% per year.

Food for thought

Value stocks, such as Whitecap and CWB, which pay nice dividends, provide good income while you wait for price appreciation. Because they're higher-risk investments, investors should consider holding them in non-registered accounts. Their eligible dividends are favourably taxed versus ordinary income. The stocks require active investing such that investors aim to buy low and sell high. If you execute the value investing strategy well, you can accelerate your retirement plan.

CATEGORY

1. Dividend Stocks
2. Investing

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kayng
2. kduncombe

Category

1. Dividend Stocks

2. Investing

Date
2025/07/08
Date Created
2022/08/20
Author
kayng