Don't Miss These Undervalued TSX Stocks That Could Boost Your Returns

Description

The market has low expectations for value stocks that trade at cheap multiples. Undervalued stocks may also have high uncertainties in their profits.

An interesting value stock in the energy sector

Many energy producers have improved their positions substantially recently due to higher energy prices. **MEG Energy** (TSX:MEG) stock is one of them. It is a large-cap company with a recent market cap of about $5.6 billion.

Here's how the company compares to the base year in 2019. Its debt-to-asset ratio improved to 42% from 51% in 2019. Its trailing 12-month (TTM) revenue increased by 42% to $5.7 billion. Its gross profit jumped 166% to $2 billion. Its operating income increased 326% to $1.4 billion. Its TTM gross profit margin and operating margin jumped to 35% and 25.5%, respectively, from 18.9% and 8.5% in 2019.

MEG Energy is expected to generate substantial free cash flow this year. It trades at only 2.7 times cash flow. In fact, Eric Nuttall, an expert in the energy space picked the oil stock as one of his top picks on *BNN* this month. He highlighted that the company has a large amount of torque from its exposure to energy prices. As well, it has 35 years of oil reserves, and investors are only paying for two years at the recent stock price. His target is six times multiple, which represents a $42 target stock price. This implies upside potential of 129% from the recent quotation.

Unpredictable energy prices dictate the profits of energy producers. Investors who believe energy prices will stay relatively high over the next 12-24 months might take a position in cheap energy stocks like MEG Energy that can result in incredible price appreciation in the period.

You can also take on less risk with other kinds of value stocks.

The market expects little from this cheap dividend stock

Both **Manulife Financial** (TSX:MFC)(NYSE:MFC) and **Sun Life Financial** (TSX:SLF)(NYSE:SLF) are in the same business of life and health insurance, but Manulife trades at a meaningful discount.

At $23.19 per share, MFC stock trades at about 7.2 times earnings, while the analyst consensus targets an earnings-per-share (EPS) compound annual growth rate (CAGR) of 8.6% over the next three to five years. In comparison, SLF stock trades at about 9.9 times earnings with an expected EPS CAGR of 7.0%.

Consequently, MFC also offers a higher yield of 5.7% versus SLF's yield of close to 4.7%. Both pay out sustainable dividends. MFC and SLF's TTM payout ratios are 37% and 42%, respectively, of net income. The returns from dividends are more predictable versus the returns from price appreciation, which rely on individual investors' investing skills of buying and selling at the right points.

MFC's TTM net income is 36.2% higher than in 2019, while SLF's TTM net income is 35.9% higher. This result is not at all surprising because businesses in the same industry have similar business opportunities and risks.

Both are Canadian Dividend Aristocrats. MFC's five-year dividend-growth rate is 9.6%, while SLF's is 7.4%. It's also not surprising that Manulife's recent dividend growth has been higher than Sun Life, because it has a lower payout ratio and its earnings are growing faster.

It's quite interesting that Manulife stock trades at a discount of roughly 27% to Sun Life stock. Because of the discount, bigger dividend yield, and higher earnings growth potential, undervalued stock Manulife has a good probability of outperforming Sun Life over the next three to five years.

CATEGORY

1. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
2. NYSE:SLF (Sun Life Financial Inc.)
3. TSX:MEG (MEG Energy Corp.)
4. TSX:MFC (Manulife Financial Corporation)
5. TSX:SLF (Sun Life Financial Inc.)

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1. Investing

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