2 Canadian Stocks That Are Dirt Cheap in September

Description

September has been yet another choppy ride for beginner investors. Unfortunately, the roller-coaster ride isn't over yet, as a looming recession and higher rates look to take a bigger nibble out of earnings growth. Through corporate earnings could take a bigger hit moving forward, I'd argue that certain firms (those that can continue taking share) can continue to do well at the expense of their rivals.

Further, investors willing to look beyond a 2023 recession may find that today's slate of valuations are pretty attractive from a historical standpoint. While certain unprofitable tech stocks may deserve to take a further beating, I'd argue that there are more bargains than there are pockets of overvaluation after the selloff in first half of the year.

Many near-sighted investors forget that after a recession-induced flop in earnings comes another expansion. For long-term investors, it's focusing on the big picture that can help one set themselves on track for a rich retirement. Yes, bad times are immediately ahead. But beyond that, things may not be so bad, given markets have already baked in a lot of the pain to come.

In this piece, we'll have a look at two TSX stocks that trade at bottom-of-the-barrel pricing. I think these names have some of the widest margins of safety out there and could be in for substantial gains over the next five to 10 years. Indeed, nobody knows what's to happen in a year or so. But over the long haul, I'd argue each name is a terrific long-term hold.

Bank of Montreal

Any time you can grab shares of a Big Six Canadian bank at a wide discount to intrinsic value, you should take it. With a recession looming and provisions likely to creep higher, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) stock was dragged into a bear market. Now down around 18% from its high, I think now is a great time to top-up an existing position or initiate a small partial position.

The stock trades at 7.58 times trailing price-to-earnings (P/E), which is below the 10.3 times industry average. Still, as loan losses come in, the P/E may not be the best gauge of value for the big bank. At 1.4 times price to book (P/B), BMO is not only cheaper than the financial industry average (1.6 P/B), but it's also close to the cheapest it's been since the 2020 market plunge.

Undoubtedly, BMO is seeing some weakness in trading fees and pressure on investment banking amid the market chaos. Adjusted fees declined around 12% in the latest quarter. With a strong balance sheet and the Bank of the West deal in the cards, BMO stock seems to good to pass up. It looks like a trap ahead of a recession, but I'd argue it's a deep-value play that could pay huge dividends. With a growing 4.4%-yield dividend, BMO seems like a must-own stock.

Fairfax Financial Holdings

Fairfax Financial Holdings (TSX:FFH) has come a long way since the depths of 2020. The firm, led by value investor Prem Watsa, is holding its own rather well amid the latest market selloff; it's down around 8% from the top. Amid the market damage, Watsa nabbed an incredible bargain with Recipe Unlimited, the owner of Swiss Chalet, the Keg, and Harvey's, in a deal worth $1.2 billion.

I'm a big fan of the brands and the price Fairfax paid. Looking forward, I think Fairfax could pursue further deals, as valuations continue to contract going into 2023. With an improving underwriting track record, Fairfax seems like a stock that's unstoppable in this kind of rocky environment. The nearly 2% yield is a nice bonus on a well-run insurance and holding company run by one of the brightest minds in Canada's investing scene.

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3. TSX:FFH (Fairfax Financial Holdings Limited)

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