Canadian Value Investors: 3 Ridiculously Cheap Stocks

Description

If you're a value investor, you probably have a lot of "cheap" stocks in your portfolio — cheap meaning inexpensive compared to the underlying company. Like most value investors, you likely have a lot of banks, utilities, and oil companies in your portfolio, as these are among the cheapest kinds of stocks in the market today.

It is true that banks, utilities, and energy companies are cheaper than certain other types of equities. However, there's more to value investing than just finding sectors that are typically considered cheap. If you look at utilities, for example, they're cheap compared to a lot of tech stocks, but their average price-to-earnings (P/E) ratio (29 according to YCharts) isn't exactly deep-value territory.

To find truly dirt-cheap stocks, you need to look beyond sectors. Usually, true deep-value names are rare. It's not common for entire sectors to trade below fair value, but sometimes individual stocks do. In this article, I will explore three of the cheapest stocks trading on the TSX today.

Cascades

Cascades (TSX:CAS) is a Canadian pulp and paper company. It is best known for selling the Cascades toilet paper that's carried by many Canadian grocery stories. It is among the cheapest stocks in Canada, trading at just 0.5 times book value (assets minus liabilities) and 15 times free cash flow (free cash flow is a cash-only measure of profit).

These metrics suggest cheapness, but Cascades has some warning signs. For example, in 2021, its net income declined 85% compared to 2020. In 2020, toilet paper prices surged, leading to windfall profits for CAS. We don't expect that to repeat in the future, and this stock will probably give investors a turbulent ride, but for a true deep-value investor, it's worth researching further.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a Canadian oil and gas company that trades at a mere 6.4

times earnings and 3.4 times cash flow. Oil stocks in general are pretty cheap, but Suncor is cheaper than most of them. If it keeps earning what it earned over the last 12 months indefinitely, it will make enough money to pay for all of its shares in fewer than four years!

Of course, matters are more complicated than that. Oil is a "boom-or-bust" industry where profits sometimes surge and other times collapse. This is one reason why oil stocks like Suncor trade at low multiples to earnings and cash flows this year. Investors don't want to assume that oil prices will stay high for years. Be that as it is, Suncor is even cheaper than the average oil company, so it's worth looking at from a relative valuation perspective.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is a Canadian bank that trades at just 8.3 times earnings. Canadian banks usually trade at about 10 times earnings, so CIBC is cheaper than average.

There are reasons for this, of course. CIBC doesn't have as much of the lucrative U.S. business that other Canadian banks rely on to drive growth. It is, however, a relatively stable bank with a high dividend yield, so it may be worth a look.

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