



## Top Canadian Value Stocks of 2023

### Description

One of the greatest investors of all time, Warren Buffett, was a value investor. Under the mentorship of Benjamin Graham, the “father of value investing,” Buffett made his fortune identifying and buying the shares of downtrodden, large-cap U.S. stocks and profiting handsomely when they made a turnaround.

Today, value investing remains a popular [investment strategy](#) among retail and institutional investors worldwide. If you’re interested in becoming a value investor in the Canadian stock market, this guide is for you.

### What are value stocks?

Value stocks are shares of companies that appear to trade at a price lower than what their fundamentals would entail. The premise of value investing is that the market (and its participant–investors) is not always efficient or accurate in determining the true price (intrinsic value) of a stock.

This is contrary to the efficient market hypothesis (EMH), which theorizes that a company’s share price always reflects the latest information available to the public, thus making it “impossible” to beat the market. Value investors disagree with the EMH, noting that the market has historically under- or over-valued many stocks relative to their company’s true performance.

### Top Canadian value stocks

The Canadian stock market is comprised of [11 stock market sectors](#), and can be split into [stock types](#) based on market capitalization (micro, small, mid, and large cap) or style (value, growth, or blend).

The following top Canadian value stocks were selected via the [Finviz](#) stock screener with the following criteria:

- **Trailing price to earnings (P/E):** Under 5.00.

- **Price to sales (P/S):** Under 1.00
- **Price to book (P/B):** Under 1.00
- **Return on equity:** 10% or over.
- **Net profit margin:** 10% or over.
- **Current ratio:** 1.00 or over.
- **5-year earnings per share (EPS) growth:** 25% or over

<b>Company</b>	<b>Description</b>
West Fraser Timber Co. Ltd ( <a href="#">TSX:WFG</a> )	West Fraser Timber Co. Ltd. produces lumber, wood products, pulp, and newsprint in Canada, the U.S., U.K., and Europe.
Resolute Forest Products Inc. ( <a href="#">TSX:RFP</a> )	Resolute Forest Products Inc. produces and exports pulp, tissue, wood products, newsprint, and specialty papers to over 50 countries.
New Gold Inc. ( <a href="#">TSX:NGD</a> )	New Gold Inc. is an intermediate gold mining company with two mines and interests in a third.

## West Fraser Timber Co. Ltd.

WFG is a diversified wood products company that engages in the production, sales, marketing, and distribution of lumber, engineered wood products, pulp, newsprint, and woodchips. Its product lines include spruce, pine, and fir, treated wood products, fiberboard panels, plywood, and laminated veneer products. The company sells to retail, wholesale suppliers, and industrial customers across the world.

## Resolute Forest Products Inc.

RFP operates in the forest products industry in the U.S., Canada, Mexico, and internationally through four segments: pulp, tissue, wood products, and paper. The company also produces electricity via cogeneration facilities and hydroelectric dams. RFP's main customers include retailers, construction companies, newspaper publishers, and commercial printers.

## New Gold Inc.

NGDI is an intermediate gold miner that primarily explores gold, silver, and copper deposits. The company owns and operates two mineral properties, which include the Rainy River mine in Ontario and the New Afton mine in British Columbia. In addition, the company maintains an interest in and operates the Cerro San Pedro mine in San Luis Potosí, Mexico.

## Investing in U.S. value stocks

Canadian investors can also look south of the border to invest in U.S. value stocks listed on exchanges like the New York Stock Exchange (NYSE) or NASDAQ. A great example of a U.S. value stock is Coca-Cola ([NYSE:KO](#)), which Warren Buffett has held in his portfolio for decades. Many of the screening criteria used above can be carried over as they are universal.

However, this approach requires converting CAD to USD, which can cost extra fees depending on your

brokerage. If you're interested in buying U.S. stocks as a Canadian investor, check out our [Guide to Buying U.S. Stocks in Canada](#).

Another way is to buy an exchange-traded fund (ETF) that holds a portfolio of pre-selected U.S. value stocks, an example being the Vanguard Value ETF (NYSE:VTV).

## How to pick value stocks

Value investors use numerous financial ratios and metrics to screen for stocks that are potentially trading in value territory. There are many ways to [find undervalued stocks](#).

Some of the metrics commonly used by investors to compare stocks within the same industry include:

- **Price-to-earnings ratio (P/E):** Compares a company's share price to its earnings-per-share (EPS). The [price-to-earnings ratio](#) shows what the market is willing to pay today for a stock based on its past (trailing) or future (forward) earnings. Stocks with a lower P/E relative to competitors in the same industry cost less per share for the same level of earnings.
- **Price-to-book ratio (P/B):** Calculated by dividing the current share price by its book value per share (BVPS). Usually, the share price is higher than the book value. Value investors generally look for a P/B of under 1, meaning that the share price is lower than the book value.

P/E and P/B are very commonly used ratios to screen for potentially undervalued companies. However, finding stocks with low ratios for both isn't sufficient. Sometimes, a company may have a low P/E and P/B not because it is undervalued, but because it is actually unprofitable or does not have good growth potential. These stocks are called value traps.

## How to avoid value traps

To avoid value traps, value investors should screen for these metrics:

- **Current ratio:** This ratio measures a company's ability to meet short-term debts due within a year. A company with a current ratio of 2 is well-capitalized, meaning that it has \$2.00 of assets on its balance sheet for every \$1.00 of liabilities. Value investors typically look for a current ratio of 1.5 or more.
- **Debt-to-equity ratio:** This is calculated by dividing a company's total liabilities by shareholder equity. It measures how well a company grows earnings and finances its assets using shareholder equity versus borrowing money. Value investors generally avoid higher ratios as this can be an indicator of large expenses and volatility.
- **Positive EPS growth:** A company's history of earnings is very important to value investors. Often, value investors will only buy stocks that have grown earnings consistently over the last five years with no deficits. A streak of earnings losses can be a sign of a potentially unstable or unprofitable company.

- **Return on Equity (ROE):** ROE is calculated by net income divided by shareholder equity. It acts as a gauge for how well shareholders earn income on their shares. Value investors prefer companies with a history of a good ROE.

For each of these performance metrics, what constitutes a good ratio as value screening criteria will differ based on the industry in question and an investor's risk profile. Investors can use a variety of free online screeners to choose the screens they want and set their desirable parameters for each.

## Should you invest in Canadian value stocks?

The answer to this question depends on what your investment objectives are, what your risk tolerance is, and how much time you're willing to spend researching potential value stock picks. Investors who want to stay hands-off and match the market's return over the long run might opt for a low-cost index fund as their portfolio's main investment.

If you want to be a Canadian value investor, you must be able to accept short-term unrealized losses. Value stocks have underperformed growth stocks and the market for prolonged periods on occasion.

In order to succeed, value investors must learn to "stay the course" through volatility after making their picks. Sometimes, the market can take a while to realize how undervalued a stock is, but once it does, that stock can quickly soar to its true price.

### TICKERS GLOBAL

1. NYSE:KO (The Coca-Cola Company)
2. TSX:NGD (New Gold Inc.)
3. TSX:RFP (Resolute Forest Products)
4. TSX:WFG (West Fraser Timber Co. Ltd.)

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