Five Stocks to Buy if Value Becomes Vogue

Five Stocks for Friday uses stock screens to give readers five stocks that we expect to outperform if a particular investment theme plays out in the future. Investment themes may be relevant to the current or expected market, industry and/or economic trends. Investment themes may not always represent our current forecast.

Value For A New Regime

?If you worry about the Fed?s ability to keep stocks elevated and the next market crash, we revisit the investment playbook for surviving and thriving the tech bust of 2000. While times are certainly different today versus two decades ago, the analysis helps us consider an alternative investment plan in case the Fed can?t come to the market?s rescue when needed.? -An Investment Playbook for Thriving During The Next Market Crash

In the article, we make the case that value stocks might prove to be a great way to protect your wealth in the event of a deep market correction. The analysis leans on lessons from the tech crash of the early 2000s.

In the late 1990s, growth stocks significantly outperformed value stocks. The late 90s were the first time in over 60 years where growth stocks beat out value stocks over any ten-year period. By 1999 valuations surpassed those of 1929 and, in almost all cases, set records. Many of those records stood until this year. Insatiable investor risk appetites and the narratives supporting extreme valuations are eerily similar to 1999.

From January 1998 to March 2000, growth beat value by over 100%. Since 2018 growth has beat value by nearly 50%. While the recent return differential is not as stark as the late 1990s, we think the playbook for surviving the ultimate correction will be similar. From 2000 to 2003, growth stocks fell nearly 60%, while value stocks were flat.

This edition of Five for Friday looks for value stocks that might outperform the market if it corrects.

Screening Criteria

The scan seeks companies with cheap traditional valuations such as P/E, P/FCF, and the PEG ratio. Given the possibility that yields may rise from historic lows, we prefer companies with a manageable debt-to-equity ratio. Lastly, we scan for profitable companies that are expected to remain profitable for at least the next five years.

Company Summaries (all descriptions courtesy Zacks)

MFC

Manulife Financial (MFC) ? Financials - Manulife is one of the three dominant life insurers within its domestic Canadian market and possesses rapidly growing operations in the U.S. and several

Asian countries.

MFC boasts the screen's lowest P/E ratio (6.8) while providing the highest dividend yield and modest expected growth. The stock remains 15% below its 52-week high and is turning up on a short-term buy signal using our cash flow model. Equity analysts expect MFC?s earnings to grow at a 9% clip over the next five years.

Chart Analysis | **Key Stats** | Analyst | Technical | Peer Fundamentals | Peer Performance | News | Dividend | Earnings

Key Stats					
10Day Average Vol	4.65M	52 Week Change	4.43%	52 Week High	22.25
52 Week Low	16.90	Beta	1.21	Day High	19.00
Day Low	18.83	Dividend (TTM)	1.12	Dividend Yield (TTM)	5.94%
Market Cap	36.74B	Open	18.88	Shares Out	1.94B

Ratios/Profitability (TTM)					
Debt to Equity	37.33	EBITDA	9.11B	EPS	2.75
Gross Margin	31.78%	P/E	6.88	Profit Margin	11.44%
ROE	12.20%	Revenue	56.12B		

FCX

Freeport-McMoran (FCX) ? Materials - Based in Phoenix, AZ, Freeport-McMoRan Inc. is engaged in mineral exploration and development, mining and milling of copper, gold, molybdenum, and silver; as well as the smelting and refining of copper concentrates.

Like many metal miners and producers, FCX trades at a low valuation while providing investors an opportunity to hedge against inflation. The stock is up 43% YTD but is 15% from its 52-week high set in May. FCX has the second-lowest PEG ratio in this list at .49. The very cheap PEG valuation is due to the low P/E ratio and a high expected five-year growth rate of 29%.

Mining is a capital, labor, and energy-intensive process, which may leave FCX profits exposed to surging energy prices and higher wages.

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Key Stats

10Day Average Vol	18.49M	52 Week Change	58.50%	52 Week High	46.10
52 Week Low	23.77	Beta	2.06	Day High	39.30
Day Low	38.27	Dividend (TTM)	0.22	Dividend Yield (TTM)	0.58%
Market Cap	56.72B	Open	38.86	Shares Out	1.47B

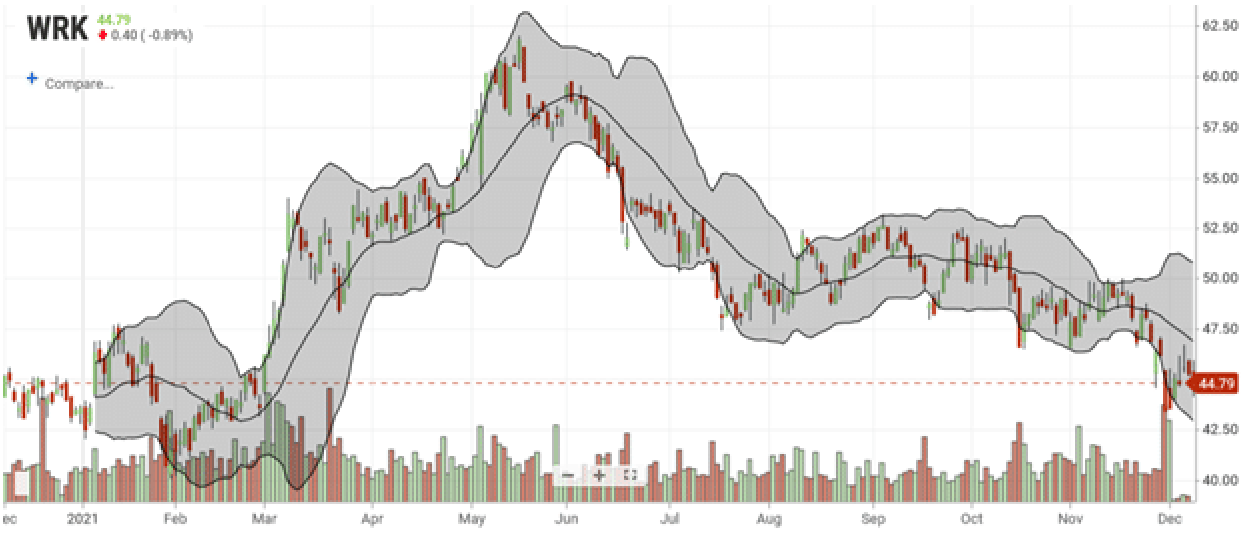
Ratios/Profitability (TTM)

Debt to Equity	42.90	EBITDA	9.56B	EPS	3.4
Gross Margin	46.01%	P/E	11.36	Profit Margin	18.46%
ROE	24.27%	Revenue	21.18B		

WRK

Westrock (WRK) ? Materials - Headquartered in Norcross, GA, WestRock is a multinational provider of paper and packaging solutions for consumer and corrugated packaging markets. The company is one of the largest integrated producers of containerboard by tons produced and one of the largest producers of high graphics preprinted linerboard on the basis of net sales in North America. It is also one of the largest paper recyclers in North America.

WRK?s forward P/E and P/S ratios are among the lowest in our screen results. The stock has gained 4.5% YTD after retreating over 26% from its May highs. Analysts expect strong EPS growth of nearly 20% over the next five years. Per our cash flow model, the stock just triggered a buy signal, but the MACD shows weakness in the trend.



Key Stats					
10Day Average Vol	2.39M	52 Week Change	0.67%	52 Week High	62.03
52 Week Low	40.04	Beta	1.19	Day High	45.90
Day Low	44.09	Dividend (TTM)	0.88	Dividend Yield (TTM)	1.95%
Market Cap	11.87B	Open	45.32	Shares Out	265M

Ratios/Profitability (TTM)					
Debt to Equity	76.21	EBITDA	2.9B	EPS	5.08
Gross Margin	18.46%	P/E	8.82	Profit Margin	4.47%
ROE	7.54%	Revenue	18.75B		

CI

Cigna (CI) ? Financials - Cigna Corporation is a global health service company dedicated to helping people improve their health, well-being, and sense of security. Such products and services include an integrated suite of health services, such as medical, dental, behavioral health, pharmacy, vision, supplemental benefits, and other related products, including group life, accident, and disability insurance. Cigna maintains sales capability in over 30 countries and jurisdictions and has more than 95 million customer relationships throughout the world.

CI is another deep value play offering solid growth for its price. A beta of 0.87 provides a more conservative alternative to the other stocks presented in the screen. However, we would be careful reading too much into the Beta calculations, especially in a lasting rotation to value stocks. CI is up 1.6% YTD after declining nearly 24% from its 52-week high set in May. CI has the lowest P/S (0.4) in this group.

Key Stats					
10Day Average Vol	2.43M	52 Week Change	-4.16%	52 Week High	272.81
52 Week Low	190.88	Beta	0.87	Day High	208.96
Day Low	206.44	Dividend (TTM)	3.00	Dividend Yield (TTM)	1.44%
Market Cap	68.89B	Open	207.86	Shares Out	331.43M

Ratios/Profitability (TTM)					
Debt to Equity	73.54	EBITDA	10.15B	EPS	22.39
Gross Margin	13.71%	P/E	9.28	Profit Margin	4.92%
ROE	17.63%	Revenue	170.4B		

MGA

Magna International (MGA) ? Discretionary - Magna International Inc., based in Aurora, Canada, is a manufacturer and supplier of complete automotive components. The company designs, develops, and manufactures automotive systems, assemblies, modules, and components, apart from engineering and assembling complete vehicles, primarily for sale to original equipment manufacturers (OEMs) of cars and light trucks.

MGA carries the highest forward P/E (12) in the group but counters with the lowest PEG ratio (.39). EPS is expected to grow 34% over the next five years, handing MGA the best growth outlook amongst the stocks. The stock is up 16.5% YTD after falling 22% from its 52-week high established in June. The chip shortage may negatively affect sales in the coming quarters.

Key Stats					
10Day Average Vol	1.37M	52 Week Change	28.38%	52 Week High	104.28
52 Week Low	61.34	Beta	1.55	Day High	81.56
Day Low	80.43	Dividend (TTM)	1.72	Dividend Yield (TTM)	2.13%
Market Cap	24.29B	Open	81.22	Shares Out	300.75M

Ratios/Profitability (TTM)					
Debt to Equity	46.97	EBITDA	4.2B	EPS	8.83
Gross Margin	15.05%	P/E	9.15	Profit Margin	4.74%
ROE	16.17%	Revenue	37.7B		

Summary

Over the last 80 years, value stocks have beat growth stocks by over 4% per year on average. However, the post-financial crisis era has greatly favored growth stocks. Changing investor mindsets takes time. Therefore, timing a rotation to value stocks will likely be difficult. Further, the Fed's propensity to pump liquidity into weak markets makes the task more difficult than in years and decades past. However, certain governors of Fed policy, like inflation, may force the Fed's hands irrespective of the market?s reaction.

We end with a quote from the article mentioned above.

?The Fed may find a way to keep equity valuations at sky-high levels even when removing liquidity. They may not, and in that case, we suggest you have an investment playbook ready to enact.?

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.