The First Cut

Stocks With Low Price-to-Book Ratios

The First Cut is designed as a starting point for investors. Each issue we list the top stocks that pass relatively simple screens of interest to individual stock pickers. AAII's Stock Investor Pro *screening software is used to generate the First Cut listing.*

While the market does a good job of valuing securities in the long run, in the short run it can overreact to information and push prices away from their true worth. The book value of a company measures the net worth of the firm's assets (shareholder's equity) and is equal to total assets less liabilities. It represents the value of the owners' equity based upon the historical accounting activities. Value investors such as Benjamin Graham sought the rare companies with a share price below their book value. Numerous academic studies also identify the price-to-book-value (P/B) ratio as being one of the best measures to identify undervalued and neglected stocks. "Using Book Value to Judge a Stock's Worth" by Charles Rotblut in the June 2015 issue of the *AAII Journal* detailed the strengths and weaknesses of this popular valuation metric.

The First Cut stocks in this issue are non-financial, exchanged-listed stocks with price-to-book-value ratios among the lowest 10% of all stocks. Financial-related companies are excluded because their balance sheets are not directly comparable to other sectors. Additional filters exclude foreign companies, stocks with prices below $5 per share and companies with negative earnings in the most recent year. Twenty-five stocks made the first cut, and they are ranked below by their current price-to-book-value ratio.

The table lists the historical price-to-book-value figures, along with the current industry value for comparison. The price-earnings (P/E) ratios for these companies are all over the board and highlight how short-term earnings disruptions can make earnings-based evaluations difficult. The historical sales and earnings growth rates measure long-term historical trends. The market-cap column highlights how most extremely low price-to-book firms tend to be very small companies. The 52-week relative strength rank column reveals that these stocks have not been the recent darlings of Wall Street—and that is exactly where contrarian investors begin their analysis.

—John Bajkowski, President, AAII

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Company (Ticker)	Company P/B Ratio Current (X)	Company P/B Ratio Year Ago (X)	Company P/B Ratio 5-Yr Avg (X)	Indus P/B Ratio (X)	P/E Ratio (X)	5-Year Ann'l Growth Rate Sales (%)	5-Year Ann'l Growth Rate EPS (%)	Mkt Cap ($ Mil)	52-Wk Rel Strgth Rank (%)	Stock Price (8/14)	Industry
GulfMark Offshore, Inc. (GLF)	0.21	0.97	0.99	0.97	12.3	5.0	4.0	212	8	8.25	Oil Well Services & Equip
NRG Yield Inc. (NYLD.A)	0.32	0.77	na	1.64	49.3	na	na	3,078	26	16.75	Electric Utilities
Talen Energy Corp. (TLN)	0.33	na	na	1.64	4.4	na	na	2,050	54	15.95	Electric Utilities
WPX Energy Inc. (WPX)	0.39	1.34	na	1.10	6.7	(1.0)	(4.2)	1,933	13	8.22	Oil & Gas Operations
SigmaTron International (SGMA)	0.41	0.80	0.49	1.98	20.5	10.7	7.1	24	20	5.74	Semiconductors
Genco Shipping & Trading (GNK)	0.41	1.00	na	0.93	0.6	(10.3)	20.1	506	12	6.94	Water Transportation
Jones Energy Inc. (JONE)	0.41	1.40	na	1.10	2.1	na	na	352	12	5.69	Oil & Gas Operations
EP Energy Corp. (EPE)	0.42	1.39	na	1.10	2.4	11.0	21.9	1,794	15	7.21	Oil & Gas Operations
Atwood Oceanics, Inc. (ATW)	0.43	1.30	1.41	0.97	3.1	14.9	6.1	1,209	14	18.70	Oil Well Services & Equip
Global Power Equipment (GLPW)	0.43	1.02	1.30	1.47	10.8	1.5	(14.6)	121	17	7.02	Construction Services
Universal Stainless & Alloy (USAP)	0.44	1.13	1.19	0.85	32.7	10.5	26.9	91	16	12.76	Iron & Steel
Helix Energy Solutions Grp (HLX)	0.46	1.77	1.36	0.97	7.7	(5.4)	16.3	771	10	7.28	Oil Well Services & Equip
Century Aluminum Co. (CENX)	0.47	2.21	1.10	1.89	4.0	16.5	19.3	528	11	6.07	Misc. Fabricated Products
Hornbeck Offshore Services (HOS)	0.47	1.18	0.94	0.93	6.8	10.5	5.1	677	17	18.88	Water Transportation
Iridium Communications (IRDM)	0.52	0.69	0.71	2.00	12.0	40.0	22.3	658	37	6.94	Communications Services
Willis Lease Finance (WLFC)	0.57	0.77	0.59	1.66	50.8	2.4	(16.1)	131	29	15.74	Rental & Leasing
L.B. Foster Co. (FSTR)	0.58	1.64	1.32	1.89	8.1	8.5	10.1	203	14	19.50	Misc. Fabricated Products
Tutor Perini Corp. (TPC)	0.59	1.11	0.72	1.47	10.4	(2.7)	(4.6)	829	23	16.89	Construction Services
CAI International Inc. (CAI)	0.59	1.00	1.31	1.66	4.6	28.4	30.3	279	28	13.15	Rental & Leasing
Renewable Energy Group (REGI)	0.59	0.72	na	2.37	12.1	57.5	19.9	421	40	9.70	Chemical Manufacturing
Gulf Island Fabrication (GIFI)	0.61	1.09	1.24	2.18	20.1	10.2	(6.1)	175	25	12.03	Construction - Suppl & Fixt
Oasis Petroleum Inc. (OAS)	0.63	3.14	3.15	1.10	4.3	105.6	101.9	1,458	9	10.48	Oil & Gas Operations
Intrepid Potash, Inc. (IPI)	0.64	1.23	1.98	1.64	101.0	6.3	(29.4)	616	21	8.08	Non-Metallic Mining
Kelly Services, Inc. (KELYA)	0.66	0.74	0.88	2.82	19.7	5.2	17.1	559	47	14.81	Business Services
Friedman Industries (FRD)	0.67	0.90	1.01	0.85	103.2	10.7	(9.7)	42	33	6.19	Iron & Steel

Source: AAII's Stock Investor Pro*/Thomson Reuters. Data as of 8/14/2015.*