3 Severely Undervalued Stocks Ripe for a Rebound

Description

The **S&P/TSX Composite Index** has been off to a slow start this year thanks to a number of concerns that you're probably too familiar with. The TSX has underperformed many indices from around the globe, and while investors have been pessimistic and fearful over Canada's future, I believe the recent bout of underperformance opens a huge door of opportunity for value hunters and stock pickers alike. Returns have been disappointing this year, but there's reason to believe that a rally could be on the horizon as fears gradually start to fade.

Here are three beaten-up stocks whose sell-offs appear to be overdone and seem to be well positioned for a rally over the next year or so.

Macdonald Dettwiler & Associates Ltd. (TSX:MDA)

MDA is a Canadian multinational communications and information company whose portfolio of assets include the Canadarm, Canadarm 2, and Dextre — remote manipulation systems that you're probably familiar with.

Shares are down a whopping ~32% from all-time highs and appear to be trading at a huge discount to the intrinsic value. The company currently trades at a 23.97 price-to-earnings multiple, a 2.2 price-to-book multiple, a 1.3 price-to-sales multiple, and a 24.5 price-to-cash flow multiple, all of which are considerably lower than the company's five-year historical average multiples of 28.8, 4.5, 1.8, and 25.9, respectively.

Earlier this year, MDA announced a definitive merger agreement with DigitalGlobe for US$2.4 billion. DigitalGlobe is a satellite imagery provider which takes high-resolution photos of Earth from space. There are many applications which put the technology to good use. Over the next few years, I believe the list of high-profile clientele will continue to grow.

Fairfax Financial Holdings Ltd. (TSX:FFH)

Shares of Fairfax were beaten up as much as ~28% from peak to trough, but more recently, shares have started to pick up positive momentum with shares soaring ~10% in just a single month.

Fairfax was beaten up pretty badly thanks to a number of poorly performing investments, including a number of hedges and short positions. Prem Watsa has been a doomsday investor for quite some time, but following Trump's presidential victory, Mr. Watsa changed his stance by becoming more bullish as he offloaded a huge chunk of his short positions.

Prem Watsa is known as Canada's Warren Buffett for a reason. He's shown in many times in the past that he can generate significant returns for long-term shareholders while providing protection from market-wide collapses. If shares of Fairfax are trading at a discount, it's usually a very wise move to be a buyer since Mr. Watsa is still a fantastic long-term investor.

Corus Entertainment Inc. (TSX:CJR.B)

Corus is a Canadian media and broadcasting company. It has been hit the hardest of the three stocks mentioned in this piece. Shares of CJR.B plunged by as much as ~65% and are still off ~48% from all-time highs.

Cable cutting and the lack of intriguing content are huge reasons why Corus took such a huge hit on the chin, but, more recently, the company has been moving back in the right direction thanks in part to the recent acquisition of Shaw Media Inc.

Corus yields a whopping 8.33%, which may seem unsafe, but it's worth noting that the management team is incredibly shareholder friendly and will only cut the dividend as a last resort. If you're willing to take a bit more risk, then Corus is a solid choice since you could end up with a massive yield and huge capital gains if Corus can continue to turn things around.

Sure, an 8.33% yield isn't exactly "safe," but it's the probably the safest 8.33% artificially high yield that you'll likely find!

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2. TSX:FFH (Fairfax Financial Holdings Limited)

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