



2 Top Stocks to Buy While Others Are Fearful

Description

In comparison to the U.S., the [TSX has been a dog](#). Year to date (YTD), the TSX Composite Index has lost 1.25%, and Canadian investors haven't seen the double-digit returns enjoyed by those south of the border.

The basic materials industry in particular has struggled. Since the start of 2018, the industry has been in a steady downtrend, losing 10.24% YTD. Within the industry, the paper and pulp sector continues to be pressured by softwood lumber prices. When stocks or industries are in a downtrend and sentiment is bearish, I remind myself of the following: "Be fearful when others are greedy and greedy when others are fearful." It's time to heed Warren Buffett's advice.

The recent sector downtrend has been a result of soft U.S. home-building activity. The U.S. housing market is a significant consumer of Canadian softwood lumber, so any weakness tends to translate into softer lumber prices. Rising interest rates, higher costs, and no shortage of supply are additional sector headwinds. Company values, however, are depressed to the point where they are worth another look.

Let's ignore pot stocks for the moment and focus on two stocks in the paper and pulp sector that are great value and have significant growth potential.

Top performer

Let's begin with the sector's top performer: **Canfor Pulp Products** ([TSX:CFX](#)). Canfor produces pulp and paper products for distribution worldwide. It offers solid wood, fibre products, and produces green energy. The company has had a banner year thus far, [almost doubling in price](#). Recent weakness, however, has provided investors with a good entry point. Over the past month, the stock has lost approximately 9% of its value.

Despite its massive share price appreciation, the company is still trading at a cheap 8.8 times earnings. This is more than half off its five-year P/E average of 19.7. In 2019, analysts estimate that the company will post earnings of \$2.67 per share, a 32% compound annual growth rate (CAGR) over fiscal 2017.

Worst performer

On the other end of the performance spectrum, we have **West Fraser Timber** (TSX:WFT). West Fraser is a diversified wood products company which produces lumber, panels, pulp, newsprint, wood chips and energy. The year hasn't been kind to shareholders as the company's stock has lost 11.75% of its value.

If you thought Canfor was cheap, West Fraser is trading at bargain-basement prices. It currently trades at a P/E of 6.1, almost three times below its five-year historical P/E average of 22.6. Over the next two years, earnings per share are expected to grow by a CAGR of 10.25%. As such, its P/E-to-growth (PEG) ratio of 0.60 indicates that the company is undervalued. The market is significantly discounting its share price as compared to expected growth rates.

From a technical perspective, West Fraser has a relative strength indicator (RSI) of 28.65. An RSI below 30 indicates that the company is oversold and is forming a bottom. As such, it could be primed for a bounce back.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CFX (Canfor Pulp Products Inc.)
2. TSX:WFG (West Fraser Timber Co. Ltd.)

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Author
mlitalien

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