Opportunity or Trap? 3 Undervalued Stocks on the TSX Index

Description

It might sound like the name of a game show, but "opportunity or trap" is a game investors play every time an undervalued stock shows up on the radar. Sometimes a stock is on a dip, and its quality stats and otherwise upward trend suggest an opportunity; at other times, the stock can turn out to be a falling knife with perpetual downward momentum. So which of these categories do the following undervalued stocks belong in?

NFI Group (TSX:NFI)

With its business model of bus and coach manufacture across North America, NFI Group is a big name in a key area of the transport sector. Down 3.14% in the last five days at the time of writing, it's also one of the most attractively valued infrastructure-type stocks on the TSX index.

NFI Group has been on a downward trend since last March with a few brief recoveries – notably at the end of September – though it has a long way to go to reclaim its former high of early 2018. It appears as though this stock has reached the bottom, and could potentially offer an opportunity to buy a rising stock, rather than a downward-spiralling wealth trap.

With a one-year past earnings growth of 23.3% close to the industry average, and a five-year average of 44.2% and dividend yield of 4.34% you immediately have two core indicators of a quality stock: a good track record mixed with the opportunity for passive income. A P/E of 8.1 times earnings is low for the market, though a P/B of 1.9 times book is a few points over the TSX average.

Lundin Mining (TSX:LUN)

With a range of geographical diversification, Lundin Mining is one of the best base metals stocks available to investors on the TSX index. With an overall positive five-year average past earnings growth of 20.1% and low debt of 10.3% of net worth, it's as healthy a mining ticker as you're likely to find. And what a bargain, with a P/E of 11.1 times earnings and P/B of 0.9 times book indicating undervaluation.

Up 1.33% in the last five days, Lundin Mining never quite regained its October 2017 peak, though it's been hovering around the $6 mark for a couple of months now and seems to have reached the bottom. Again, as with NFI Group, Lundin Mining appears to be an opportunity. Indeed, with precious metals set to have a good 2019, there looks to be some strong potential for upside here.

Fortuna Silver Mines (TSX:FVI)(NYSE:FSM)

Down 3.21% in the last five days, Fortuna Silver Mines saw a one-year past earnings growth of 70.4% and five-year average of 61.5%. With low debt of 7% of net worth, a P/E of 9.4 times earnings, and trading at its book price, this is a very attractive stock right now.

Way down off its August 2016 peak, Fortuna Silver Mines has been oscillating around the $4.50 range for a couple of months now, and only time will tell whether it starts to climb. From the look of that trend, it would appear that, again, the bottom has been reached and recovery is on its way.

The bottom line

Three falling knives have apparently hit the bottom and are now on the road to recovery. With the two precious metal miners here likely to see an uptick in their fortunes this year, adding either of them to a portfolio light on miners may prove a prudent choice. Lundin Mining looks especially strong, with a dividend yield of 1.92% matched with a 24.3% expected annual growth in earnings, Meanwhile, the transport stock would suit a TSX index investor looking for a bit of infrastructure to balance out a dividend portfolio.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
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TICKERS GLOBAL

1. NYSE:FSM (Fortuna Silver Mines)
2. TSX:FVI (Fortuna Silver Mines)
3. TSX:LUN (Lundin Mining Corporation)
4. TSX:NFI (NFI Group)

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