



Are These 2 Oversold Stocks Worth Another Look?

Description

There are a few key metrics that investors can use to determine a good entry point for a particular stock. One such indicator is the 14-day relative strength index (RSI). The 14-day RSI is one of the most commonly used momentum indicators.

An RSI over 70 signifies that the stock is overbought and may be due for a correction. Conversely, an RSI below 30 is a sign that the stock is oversold and may be due for a short-term bounce. Two stocks that have touched an RSI below 30 recently are **MTY Food Group** ([TSX:MTY](#)) and **Uni Select** ([TSX:UNS](#)). Does recent weakness mean a good entry point? Let's take a look.

MTY's fourth-quarter results

MTY Food Group was cruising along until it released fourth-quarter and year-end results. Before results, the company was up approximately 15% in 2019. After it [missed on earnings](#), the company's stock price crashed and it is now down about 2% year to date.

The fourth quarter wasn't all bad, however. Although earnings of \$0.54 missed by 26%, revenue of \$108.52 million beat by 25%. Of concern, same store sales dropped by 1.3% year-over-year. The company pointed to unusual weather patterns south of the border as having the most significant impact on this metric.

Given the pace of acquisitions, the company has many non-recurring expenses, which leads to significant earnings volatility. However, the company is growing sales at a 20%+ clip and cash flows are experiencing equally strong growth. Last month, the company raised its dividend by 10%, as it expects cash flows to remain strong through 2019.

The headlines have led to overreaction and MTY's stock is oversold. It is now trading at a cheap price-to-earnings (P/E) of 14.89 and a P/E to growth (PEG) of 0.86. Given its impressive track record, expected growth profile and cheap valuations, MTY is due for a bounce.

Uni Select fourth-quarter results

Much like MTY, fourth-quarter and year-end results [was the catalyst](#) for Uni Select's recent price correction. Since reporting earnings last Wednesday, the company's stock price has lost almost 35% of its value. It's therefore no wonder that the company has quickly entered oversold territory.

Uni Select earnings of \$0.13 missed by 28% and revenue of \$419.45 million missed by approximately \$2 million. In 2018, revenue grew by 21% on the back of recent acquisitions while organic sales eked out a 1.5% gain. Particularly concerning are margin pressures, which are expected to continue along with an expected drop in profitability. The company also remains without a permanent president and CEO. Certainly, the lack of leadership at the top is certainly a headwind.

As of writing, Uni Select has jumped from an RSI of 19 to 28 and as such, still has room for an upwards move. However, the company lacks a clear path to growth, is without a CEO and is trading at valuations (P/E, PB, PEG), in line with industry averages. I expect continued volatility in the stock.

Foolish takeaway

Although both MTY Group and Uni Select are currently oversold, MTY is the more reliable long-term play. Both may experience a short-term bounce, but MTY's looks more sustainable over the long term.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:MTY (MTY Food Group)
2. TSX:UNS (Uni-Select)

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Author

mlitalien

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