



Are These 2 Oversold Stocks a Buy?

Description

Taking a peek at the [oversold list](#) is a great way to find potential bargains. One of the most common indicators of momentum is the 14-day relative strength index (RSI). An RSI below 30 is typically a signal that the stock is oversold. As such, it may be due for a short-term bounce.

For your consideration, here are two stocks that were hammered last week and resulted in significant down pressure on their stock prices. Is it time to jump in? Let's take a look.

Cascades ([TSX:CAS](#))

Since announcing earnings on February 28, Cascades stock has dropped 17% and hit a low of \$8.09 before rebounding slightly yesterday. The significant selling pressure on the stock caused it to dip to an RSI of 18 at its worst. As of writing, the company is trading at an RSI of 29 and is still considered oversold.

What happened? For starters it wasn't a great fourth quarter. Although the company released earnings and revenue that were largely in line with expectations, it posted a loss of \$0.69 per share. The company also announced it was closing two of its Ontario plants which produce 44,000 tonnes of tissue paper annually.

In my opinion, the sell-off was overdone. The company is still growing, posting 10% revenue growth over the fourth quarter of 2017. Its Containerboard Packaging segment continues to see favourable market conditions and its European Boxboard segment benefited from higher selling prices and lower input costs.

It is also aggressively pursuing an acquisition strategy and making several plan improvements to increase capacity and efficiency.

Tissue remains a drag on results, hence the plant closures. It also took a \$75 million write-down on certain U.S. assets. This one-time event is what led to its big quarterly loss. Trading at a forward P/E of 7.80 and a P/E to growth (PEG) of 0.22, Cascades looks attractively valued.

Winpak ([TSX:WPK](#))

Winpak's story is similar to Cascades's. The company fell by approximately 10% after earnings [hitting 52-week lows](#), and the company still has yet to recover. Although it appears to have found a bottom, it is still trading at an RSI of 28.

Winpak's fourth-quarter earnings missed on both the top and bottom lines. Earnings of \$0.41 missed by \$0.04 and revenue of \$222.14 million missed by \$5.63 million.

After years of meteoric growth, Winpak appears to be hitting a plateau. Net income was up 1%, excluding the impact of the favourable U.S. tax cuts in 2017, and revenue was flat year over year. Analysts are expecting low single-digit earnings and sales growth through 2020.

At today's price of 24.98 times earnings, the company appears to be fairly valued.

Foolish Takeaway

Winpak and Cascades may see a short-term price jump based on their current oversold conditions. However, Cascades offers significantly better growth prospects and is better positioned for long-term gains.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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2. TSX:WPK (Winpak Ltd.)

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