3 Overvalued Stocks That Are Worth the Investment

Description

Is there ever a right time to buy an overvalued stock on the TSX index? When a company's stock starts to rise and indications suggest that it will continue to do so, upside chasers are often right to jump on at the start of a trend, while some other stocks have gravity-defying characteristics that make a short-term investment a lucrative option. Then again, a stock may simply be worth having at any price; the following three stocks fit into at least one of these categories.

BlackBerry (TSX:BB)(NYSE:BB)

The share price of this Canadian tech giant has leapt 11.14% in the last five days. Even for tech stocks, that's quite a jump, while five-year average past earnings growth of 68.7% show that BlackBerry is a seasoned ticker to get behind. Even better, its debt compared to net worth has been brought down effectively over the last five years from 44.9% to a safer 25.2%.

While a 13.8% expected annual growth in earnings suggests good things ahead, BlackBerry got on this list by being poor value for money at the moment, so let's take a look at the damage: trading with a P/B ratio of 2.1 times book is no great sin for a tech stock, though a P/E of 58.6 times earnings is another story. However, with a number of interesting projects lined up, BlackBerry might be worth the extra outlay.

Fortis (TSX:FTS)(NYSE:FTS)

Outside of bank stocks, stacking shares in utilities like Fortis is among the best strategies for adding backbone to a flimsy portfolio. This TSX index super-stock might not be the best buy right now, though; from hidden overvaluation to a mediocre balance sheet, Fortis might be one for the watch list.

While a one-year past earnings-growth rate of 14.2% indicates a solid track record (as does a five-year average of 24.4%), its level of debt compared to net worth has crept up over the last five years from 123% to today's 134.3%. additionally, all is not as it seems in terms of value. A PEG of four times growth aligns with an overvaluation by over six times the future cash flow, showing that too much faith can be placed in a P/E ratio.

Canadian Pacific Railway (TSX:CP)(NYSE:CP)

Railway stocks are a firm favourite with pundits and investors in infrastructure alike; however, they're not always great value for money, as the stats Canadian Pacific Railway show. Overvalued by 40% of its future cash flow value, this bankable train ticker has a P/E of 20.2 times earnings and P/B of 5.8 times book.

One-year returns of 21.2% and a five-year average past earnings growth of 16.2% signify a stock worth having, though, while a past-year ROE of 29% is a hallmark of quality. While its debt to net worth has increased in the course of the last half-decade from 68.2% to 131% today, a small dividend yield of 0.94% and 10% expected annual growth in earnings indicate a decent long-term play.

The bottom line

While these overvalued stocks are arguably worth the outlay, overvaluation is not always easy to spot. Fortis may go unnoticed by value-focused investors, for instance, with two of the most common indicators of this characteristic (its P/E of 19.1 times earnings and P/B of 1.4 times book) suggesting near-market valuation; however, its stable dividends and solidly defensive status make it a stock worth buying.

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