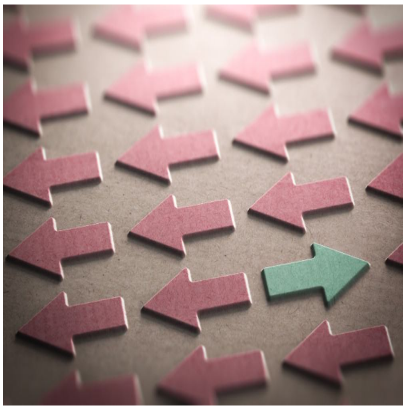

TFSA Investors: 2 TSX Contrarian Buys for February 2020

Description

While the markets are trading just below record highs, you can still find some stocks that are trading close to their 52-week lows. Several of these stocks have been grappling with falling sales and profit margins, but a few of them have overcorrected and trading at cheap valuations, making them attractive buys for contrarian investors.

Methanex

Methanex (TSX:MX)(NASDAQ:MEOH) is a Canada-based producer and supplier of methanol. It has production sites in Canada, the United States, Trinidad & Tobago, Chile, Egypt, and New Zealand.

The company's global operations are supported by a robust supply chain of terminals, storage facilities, and a fleet of methanol ocean tankers. Methanex generates the majority of sales from China and the United States. The other top markets include Europe, South Korea, South America, and Canada.

The stock is trading 42% below its 52-week high and has lost over 13% in the last five years. Methanex shares have grossly underperformed markets in the last year, as company sales fell from $3.93 billion in fiscal 2018 to $2.78 billion in 2019.

However, analysts expect company sales to reach $2.83 billion in 2020, $3.07 billion in 2021, and $3.2 billion in 2022. The return to sales growth will also boost company earnings higher. According to consensus estimates, Methanex earnings are expected to rise by 92.5% in 2020 and 47.5% in 2021.

Compare this to the stock's forward price-to-earnings multiple of 14 and we can see that it is grossly undervalued. Further, it also has a forward dividend yield of 3.9% and a payout ratio of 49.3%. Methanex has room to increase dividend payouts going forward, looking at its low payout ratio.

Methanex sales in 2019 have been impacted by the falling prices of methanol. The average price of methanol fell from US$516/metric tonne in October 2018 to US$340/metric tonne in September 2019.

Now, with revenue growth set to accelerate, this dividend-paying stock seems like a solid bet for contrarian investors.

Nutrien

Shares of **Nutrien** (TSX:NTR)(NYSE:NTR) have fallen 15.6% in the last 12 months. The stock is trading at $57.19, which is 22% below its 52-week high. Nutrien is a Canada-based crop-nutrient producer and distributor of potash, nitrogen, and phosphate products for agricultural and industrial customers. Nutrien generates the majority of sales from the United States, followed by Canada and Australia.

Shares have underperformed markets in the last year due to unfavorable macro conditions. This resulted in an earnings miss in each of the last four quarters for the firm. In 2019, analysts expect company sales to fall 2.4% to $19.16 billion. However, revenue growth is estimated at 5.9% in 2020 and 4% in 2021. While earnings might fall 14% in 2019, it is estimated to rise by 24% in 2020.

Despite the recent pullback, Nutrien shares are trading at a forward price-to-earnings multiple of 20, which can be considered expensive. But the stock also has an attractive forward dividend yield of 4.1%.

The company spends heavily to return shareholder wealth. In the first three quarters of 2019, Nutrien spent $2.4 billion on share repurchases. It expects to generate cash flows between US$22 billion and US$25 billion by the end of 2023, giving it enough room to increase shareholder wealth via dividends and buybacks.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:MEOH (Methanex Corporation)
2. NYSE:NTR (Nutrien)
3. TSX:MX (Methanex Corporation)
4. TSX:NTR (Nutrien)

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