WARNING: 2 Canadian Stocks That Got Hit Hard This Week

Description

Buying the dip has been an effective strategy for TFSA investors, as this bull market has quickly regained its footing after its odd stumbles. The following two stocks have faced a considerable amount of damage over the past week over reasons that I believe are overblown beyond proportion, opening a window of opportunity for contrarian investors to bag a big discount that may not last for long.

Alimentation Couche-Tard

Global convenience store kingpin **Alimentation Couche-Tard** (TSX:ATD.B) shed 5% last week, as the broader markets crept towards all-time highs. The stock has been under pressure over news that the company has sweetened the pot in an effort to acquire Caltex Australia, with an offer that currently stands at $5.93 billion.

The stock retreated 1% on Thursday over fears that Couche-Tard may be at risk of overpaying for the convenience store chain that's been pressured to make a sale. A takeover of Caltex would undoubtedly put Couche-Tard on the map in the Australasian region, a high-ROE market that management strongly desires to form a foundation in. There are issues at Caltex, and given Couche-Tard's management team is among the best in the business, there were ample improvements and synergies to be had from a deal.

Of course, the value to be had from such a deal depends on the price paid, so the recent offer sweetening has left a bitter taste in the mouth of Couche-Tard investors.

In a prior piece, I'd highlighted the fact that Couche-Tard's management team wasn't one to risk overpaying for an acquisition. While sweetening deals diminishes a bit of long-term value to be had for shareholders, it's worth remembering that management is not one to risk overpaying for an acquisition. They've walked away from potential deals in the past, and if Caltex wants more sweetener, Couche may walk away once again.

Given management now has a better gauge of synergies to be had, it's entirely possible that expected synergies may be a lot higher than initially expected. And if that's the case, there's no good reason as to why Couche-Tard stock should be under so much pressure. I think overpayment for the deal is out of the question. The only question now is just how much synergies there are to be realized.

Manulife

Manulife (TSX:MFC)(NYSE:MFC) stock pulled back nearly 2% on Thursday following a rough quarter that missed analyst expectations on the earnings front, with decaying sales in Asia and softness in Canada.

“With large exposure to Asia (earnings slowed), Manulife’s conference call will certainly focus on this segment and potential coronavirus implications. We believe near-term sentiment on the stock has been impacted with MFC shares trailing peers and benchmark indices year-to-date.” said **Canaccord Genuity** analyst Scott Chan in a research note.

Manulife’s Asian business may soon grow to account for a third of overall profitability, and with the implications of the coronavirus highlighting the company’s earnings call, investors have a right to be cautious on the name. Management thinks it’s too early to tell if the outbreak will severely impact the Asian business, but I think investors would be wise to take a wait-and-see approach with the stock.

Shares are currently down 6% from all-time highs, but the decline could become much more extensive over the coming weeks, as investors have an opportunity to digest the recent results and weigh the new slate of uncertainties. At 8.4 times next year’s expected earnings, MFC is dirt cheap, but that doesn’t mean it can’t get even cheaper, despite its promising long-term fundamentals.

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