2 TSX Stocks Poised to Outperform in a ZERO Earnings-Growth Environment

Description

To end one of the worst weeks for stocks since the Financial Crisis, **Goldman Sachs** issued a dire warning that the coronavirus (COVID-19) outbreak could send U.S. earnings growth to zero. Given the impeccable timing of Goldman's correction call preceded the nasty five-day 13% drop in the **S&P 500**, investors would be wise to heed Goldman's latest warning if they find they're overexposed to the stocks of businesses that are seen as most vulnerable.

Even if Goldman is right on the money, and U.S. companies do post zero earnings growth for the year, it doesn't necessarily mean that investors should look away from stocks as a whole for the remainder of 2020.

After a 13% correction, the markets already look priced for such a slowdown.

The question that investors should be asking themselves, is which companies are more likely to experience above-average (positive) growth, and which ones could weigh down aggregate U.S. earnings growth with below-average (negative) growth? And of the companies that are poised to grow in a no-growth environment, one must consider the price they'll pay for the potential outperformance they'll receive.

Fortunately for us value investors, the past week of violent selling activity has spared few stocks, even those with robust businesses that have the ability to ride out the tough times that lie ahead. In such times of severe market inefficiency, there is an abundant number of opportunities out there for those willing to go against the grain and spot the babies that have been thrown out with the bathwater.

Consider **CN Rail** (TSX:CNR)(NYSE:CNI) and **Fortis** (TSX:FTS)(NYSE:FTS), two stocks that I see as being mispriced amid recent woes that have brought down the entire market.

CN Rail

CN has been facing the perfect storm of issues of late.

The Canadian economy was already sluggish heading into 2020; the eight-day Teamsters strike late last year acted as salt in the wound for the fourth quarter; rail blockades caused yet another interruption to operations (also sparking layoffs); and market-wide panic over the implications of the coronavirus (COVID-19) has just served to exacerbate CN's troubles.

There's no question that CN has its fair share of baggage, but the company and its exceptional management team have proven time and time again that they have what it takes to overcome obstacles to get back on the right track. CN is known as North America's most efficient railway for a reason. As headwinds inevitably fade, the efficiency-focused rail king will be back to making meaningful improvements to its operating ratio once again.

Any time such a long-term outperformer gets knocked down, it's almost always a wise idea to pick up shares, and the latest correction is no exception. At the time of writing, the stock trades at 18.2 times next year's expected earnings and 5.4 times sales — a decent value given Canada's economic backbone will continue chugging along in spite of the seemingly ominous headwinds that lie ahead.

Fortis

Sometimes Mr. Market just doesn't make any sense with his pricing of certain stocks. I thought Mr. Market "lost it" last Friday, as shares of Fortis plunged 4.4% on the day, knocking shares of the popular Canadian bond proxy down just over 8% from its all-time high.

Given Fortis is seen as a go-to defensive dividend bet for those seeking shelter from a volatile market, one would think Fortis would take on minimal damage as stocks collectively fall into a tailspin. But that wasn't the case, as Canadian investors seemed to have been rattled after the "technical glitch" knocked out the TSX at the end of a brutal Thursday.

Due to Fortis's lowly correlated and highly regulated cash flow stream, FTS stock managed to outperform in the last market crash, and I'd bet on a repeat come the next one. It doesn't matter if it's a financial crisis or a biological crisis, Fortis's dividend (and its dividend growth) can be relied upon, and for investors seeking to reduce their risk (and not their returns) as they head into a potentially dangerous year.

Investors lacking a defensive foundation ought to be treating the 4.4% selloff as a gift courtesy of Mr. Market, regardless of which direction they think the broader market is headed next.

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