



2 TSX Stocks That Are Still Undervalued

Description

By now many **TSX** stocks have recovered a considerable amount from their lows and although some stocks remain discounted, they aren't super cheap.

Meanwhile, some of the only companies that trade super cheap have had significant impacts to their businesses, such as a stock like **Air Canada**. Sure, these TSX stocks are a lot cheaper, but the risk to their businesses going forward is significantly increased.

To find stocks with the most value, investors will really have to dig. Each company and industry is being affected differently. It therefore requires a lot of research to identify where the risk to reward is the most favourable for buyers.

Two TSX stocks that still have significant value for investors today are **Pizza Pizza Royalty Corp** ([TSX:PZA](#)) and **Aritzia Inc** ([TSX:ATZ](#)).

Restaurant TSX stock

What's been called Canada's most defensive quick service restaurant company continues to offer significant value for long-term investors. Pizza Pizza has actually recovered more than 25% from its lows. However, at more than 30% off its highs, it still remains cheap.

While every restaurant company is facing headwinds to one degree or another, Pizza Pizza's business model allows it to remain the most robust. And because it's a royalty company, much of the revenue and dividend will be unaffected going forward.

As of 2019, the payout ratio was starting to exceed 100%. Although at the current rate, the company could sustain the dividend for at least another year. However, it's likely that Pizza Pizza will trim the dividend for two reasons.

First, although it was capable of sustaining the dividend for at least another year, the impact to its business already could start to severely reduce its cash reserve.

Second, with so much uncertainty still remaining, it would be prudent to build up a margin of safety, which could be a good hedge in case restaurant closures last longer than expected.

As of Thursday, Pizza Pizza had a closing price of \$7.14, offering investors a current dividend yield of 11.95%.

It's unclear how much the dividend would be trimmed if Pizza Pizza did decide to go that route. That said, a 20% cut would be more than sufficient. Not only would it give the company more flexibility, but it would still offer investors an attractive dividend yield.

At Thursday's closing price, the dividend would still yield more than 9.6%.

Retail TSX stock

Aritzia, the other stock to consider, has been sold off significantly over the last few weeks.

One could argue that the price was getting frothy in early February. The company reported another strong quarter of earnings in January, sending Aritzia's stock soaring. However, the major fall the company has endured is more than enough to make up for the impact to its business and eliminate the premium stock had before this began.

Now, at a stock price of just over \$10, Aritzia is a steal.

Not only can investors get the stock at a trailing price to earnings ratio of just 14 times, but when you consider the growth it's capable of when things get back to normal, \$10 is a bargain.

In just the last three years, Aritzia has grown its revenue and equity by roughly 50%. These numbers are extremely impressive. However, they aren't surprising when you consider Aritzia's execution.

The company has been opening stores rapidly. And on top of all the stores it's opening, Aritzia is making back the money on those stores on average in less than two years.

Going forward, the company will continue to face issues as stores remain closed. When stores reopen though and things go back to normal, [Aritzia](#) could easily double from here.

Bottom line

While both stocks face headwinds in the short-term, the long term have incredible value. A growth stock like Aritzia could provide investors growth for years. Plus, with Pizza Pizza, that massive dividend is extremely attractive.

It's difficult to say where the stocks will go in the short run. But if you buy for the long-term, you surely will not be disappointed.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ATZ (Aritzia Inc.)
2. TSX:PZA (Pizza Pizza Royalty Corp.)

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