



Market Rally: 2 Top Stocks on the TSX Index That Are Absurdly Cheap!

Description

Even though we're in a seemingly sustainable market rally, it's important to remember that the [uncertainties relating to the coronavirus](#) are still alarmingly high. It seems like we're out of the woods now, but a huge chunk of the gains posted over the past few weeks could still stand to be surrendered at the drop of a hat.

As such, investors should consider looking to less-vulnerable names to [land a favourable risk/reward trade-off](#). By doing so, one's portfolio can better hold its own should we be headed back to last month's lows.

This piece will have a look at two severely battered TSX-traded securities that can improve your odds of scoring outsized returns without having to risk your shirt by trading the outcome of the coronavirus. Without further ado, consider **Parkland Fuel** ([TSX:PKI](#)) and **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), two deep-value stocks that I believe have a ridiculously wide margin of safety for long-term investors willing to hold for at least five years.

Parkland Fuel

Canadian fuel retailer Parkland Fuel got thumped on the coronavirus outbreak. Volumes are expected to decline drastically, further M&A is likely to be paused, and the dividend is going to feel a bit of pressure. As a result, Parkland shares have crashed hard. Perhaps too hard, with shares nosediving nearly 60% from peak to trough.

Despite the high debt-to-equity ratio of 2.15, with \$4.35 billion worth of total debt weighing down the balance sheet, I think the dividend is safe, even if COVID-19 drags on into year-end. The company has slashed its capital spending for 2020, with approximately \$1 billion in liquidity to ride out the tough times ahead. Moreover, the company isn't at high risk of breaching covenants, which bodes well for the health of the dividend.

Although the company isn't as financially flexible as I'd like, thanks to the cost of recent acquisitions, I am a fan of the valuation, with shares currently trading at 2.15 times book and 6.1 times EV/EBITDA.

The company has fallen under a considerable amount of pressure, but I expect a sharp rebound in the name as the long-term fundamentals are still very much intact.

Fellow Fool Matt Smith is a fan of Parkland at this juncture: "Parkland is in the enviable position of actively driving additional efficiencies from recent acquisitions, allowing it to organically boost profitability. Once the current crisis ends, Parkland will return to growth, causing its stock to rally significantly, emphasizing why now is the time to buy."

I think Smith is right on the money, and investors should seek to buy the depressed growth name now while the dividend yield is swollen at 4.2%.

Bank of Montreal

The axe may be coming to the dividends of the big U.S. banks amid these unprecedented times.

Bank of Montreal has a considerable amount of exposure to the ailing oil and gas sector, so naturally, one would expect to throw the Canadian bank into the mix of large-cap financial institutions that could suffer a dividend reduction.

Despite the seemingly insurmountable headwinds facing a name like BMO, it's worth remembering that the old bank has been through far worse through the decades. And it kept its dividend intact through the worst of it. This time, I believe, will be no different.

BMO is a very well-capitalized Canadian bank — so much so such that the soured loans that are on the horizon will be manageable and won't jeopardize the company's remarkable multi-decade dividend payment streak. Given the low payout ratio and ample liquidity, I wouldn't be surprised to see BMO "bribe" its investors with yet another dividend hike in the midst of the chaos.

While BMO could stand to face substantial downside as provisions continue to mount, I think the risk/reward trade-off is highly favourable for those looking to lock in a handsome (and safe) dividend amid these tough times. The stock currently trades at 0.98 times book, making the 6.1%-yielding bank a generational bargain for income investors.

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1. Bank Stocks
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TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. TSX:BMO (Bank Of Montreal)
3. TSX:PKI (Parkland Fuel Corporation)

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