



TSX Stocks: 1 to Buy, 1 to Hold, and 1 to Sell

Description

The situation in the markets these days is creating a lot of opportunities for long-term investors. Plenty of **TSX** stocks remain undervalued, even in the current economic situation.

It's important to choose stocks with solid underlying businesses. However, it's also equally as important to find businesses in industries that are seeing little or no impact from the coronavirus.

You also want to focus on the high-quality stocks that are the most undervalued. It is true that long-term investors should be able to buy high-quality stocks at any price. In theory, if they are high-quality, then over the long term, the stocks will appreciate anyway.

However, with so many great stocks trading at such massive discounts, the opportunity cost of not investing in the most undervalued companies could be substantial.

So, without further ado, here's one stock to buy, one to hold, and one to avoid.

A TSX stock to buy

One of the top value stocks on the TSX today has to be **Corus Entertainment** ([TSX:CJR.B](#)).

I [wrote about Corus](#) a few months ago, back when the TSX stock was trading at just \$2.70. Since then, it has skyrocketed by more than 35%, yet the stock is still extremely cheap.

Currently, Corus trades at a trailing price-to-earnings ratio of just 4.2 times. The stock has been oversold over fears that the impact of reduced advertising would result in a big hit to Corus's bottom line.

Back at the last earnings report, management wanted to take a wait-and-see approach. So, the decision was made to let things play out before declaring the June dividend.

And since management went ahead and issued the dividend, it's likely that whatever impact on

business Corus has seen, has probably only been minor.

A TSX stock to hold

Another great stock on the TSX is **Pizza Pizza Royalty** ([TSX:PZA](#)).

Pizza Pizza is a high-quality income stock and one of the most defensive investments in the restaurant space. While a number of its peers have had to suspend their dividend completely, Pizza Pizza only had to trim its dividend slightly.

The move came after stay-at-home orders saw its walk-in sales (which account for roughly 35% of sales) drop off almost completely.

Pizza Pizza's management took the prudent steps to trim the dividend by 30%. While this is only a minor cut compared to its peers, for Pizza Pizza itself, the move was actually more than needed and very conservative, which will help the company to build its cash reserve and better manage in the ongoing pandemic.

Investors have liked what they've seen, and the stock now trades just over 10% off its pre-pandemic price.

In my view, this represents full value and not much upside left in the current environment. However, if you owned the stock, I would still hold it, as it continues to pay out an attractive 6.9% dividend.

A stock to avoid

The one stock I would caution investors to [avoid](#) is **Air Canada** ([TSX:AC](#)).

The airline industry has been hit hard, and there doesn't look like any relief is coming soon. Keeping travel limited and borders closed to non-essential travel is one of the easiest ways to slow the spread of coronavirus.

For this reason, I tend to agree with Warren Buffett and think it could be years before airlines reach the record capacity they had in 2019.

That doesn't mean the stock won't appreciate in the short run, as speculation grows with the market. However, if you are a long-term investor, I wouldn't count on a rebound in Air Canada anytime soon.

So, in short, I'd avoid the stock for two reasons. First, there is still way too much uncertainty in the airline industry, in my view. And second, with so many other top TSX stocks (with considerably fewer headwinds) trading for so cheap, there are much better places to invest your cash today.

Regardless of the shares being down 65% from its highs, if it continues to see little to no capacity, the stock could come crashing down again soon.

Bottom line

It's not enough just to buy TSX stocks when they are undervalued. Investors also need to understand the business as well as the industry to get a holistic view of the investment they are making.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:CJR.B (Corus Entertainment Inc.)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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Date

2025/08/23

Date Created

2020/06/19

Author

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