BUY ALERT: This Under $20 TSX Stock Could Rally Soon

Description

The broader market recovery seems to be picking up pace in the third quarter. After losing 21.6% in the first quarter, the **S&P/TSX Composite Index** rose by 16% in the second quarter. Extending this recovery, the benchmark has risen by 5.5% in the third quarter so far.

Downbeat Q2 earnings season

Investors were already prepared for the ongoing downbeat Q2 earnings season. On the positive side, gradually rising economic activities have given some hope to companies and the overall economy. This could be the primary reason why the stock market is continuing to recover in the third quarter despite largely disappointing Q2 earnings season.

I've been suggesting investors to avoid buying most industrial stocks for the last few months. However, improving economic activities across the globe gives me the confidence to hunt for some good industrial stocks to buy right now. In this article, we'll take a look at one such industrial company that's trading below $20 per share and could yield solid positive returns in the near to medium term.

Finning International's dismal Q2 results

Finning International (TSX:FTT) reported its second-quarter results on Tuesday after the market closing bell. The company reported six cents earnings per share — missing Bay Street analysts' consensus estimate of $0.20 per share. The quarterly earnings reflected a 70% year-over-year (YoY) decline in its earnings.

Finning International's total revenue reflected a 29% YoY drop to $1.4 billion in Q2. However, it was at par with analysts' expectations. In its latest earnings report, the company cited the COVID-19 related closures and low commodity prices as the key reasons for its dismal second-quarter results.

An optimistic outlook

In Q2, Finning International had to face postponed equipment orders and deliverables, which led to reduced productivity and labour utilization at its branches. Nonetheless, the scenario seems to be improving for the company in the third quarter. In the Q2 earnings report, Finning's management highlighted that a "notable increase in rental activity, machine utilization hours, and product support revenue run rates" started in May.

This recovery has accelerated in the last couple of months with the help of easing COVID-19-related restrictions across North America. That's why I expect Finning International's third and fourth-quarter results to showcase strength and signs of fast recovery.

Many of Finning's projects in the U.K. and Ireland have already resumed, including the construction and power system project. The company expects to start the high-speed rail mega-project later in 2020.

Foolish takeaway

Based on its second-quarter results, I wouldn't consider buying Finning International's stock. However, I believe the worst is already over for the company. Moreover, its management seems to be taking the necessary steps to cut down costs. For example, the company has announced to reduce its global workforce by 8% by the end of 2020.

Also, most negative factors that affected its Q2 results could already be factored in Finning's stock price. It has lost 23.3% in 2020 so far as compared to a 4.1% decline in the **TSX Composite** benchmark.

As the economic activities across North America pick up the pace in the coming months, Finning International's stock could witness a sharp recovery.

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