2 Absurdly Cheap TSX Stocks That Can Gain up to 190% in the Next Year

Description

The major equity indexes have staged a remarkable comeback in the last four months after they bottomed out in March 2020. However, the COVID-19 pandemic rages on, which continues to impact consumer spending, resulting in an economic downturn. There are several industries that have been hurt due to the dreaded coronavirus, including retail, airline, energy, and industrials.

It also means there are several stocks still trading at massive discounts to analyst price target estimates and have significant upside potential if markets stage a recovery in the next few months.

We'll take a look at two stocks on the TSX that could be underpriced performers and are currently trading at cheap valuations.

Methanex may gain 190% as per analyst estimates

Methanex (TSX:MX)(NASDAQ:MEOH) produces and supplies methanol in North America, Europe, Asia Pacific, and South America. It also purchases methanol from other producers via off-take contracts. Further, Methanex owns and leases storage and terminal facilities.

Methanex stock has fallen by a massive 75% since September 2018 due to depressed commodity prices. This led to the company booking a $65 million net loss in Q2 compared to a net profit of $23 million in the March quarter.

Industry analysts pegged annual methanol demand to increase between 3% and 4% in 2020 prior to COVID-19. However, compared to Q4 of 2019, methanol demand slumped 12% in Q2. The pandemic has hurt industries such as construction and automobiles, two sectors that drive methanol demand.

Methanex suspended operations at its Titan plant in the Caribbean. It also deferred capital expenditures of $500 million by 18 months and cut spending by $30 million in 2020. However, the company might stage a rebound when global economies limp back to normalcy and industry demand picks up for methanol.

During its Q1 earnings call, company CEO John Floren said, “We have begun to see some early signs of improving methanol demand with global economic activity beginning to recover and with oil pricing stabilizing in recent weeks.”

Analysts tracking Methanex have a 12-month average target price of $72, which is 190% higher than the current trading price.

An energy-focused company

The second stock on this list is **Pason Systems**, a company that provides instrumentation and data management services for drilling rigs. Shares of Pason Systems are trading at $6.41, which is 64% below its 52-week high.

The bloodbath in the energy sector will have a direct impact on Pason, as analysts expect sales to fall close to 42% in 2020. However, this decline is already priced into the stock, and, similar to Methanex, even Pason investors can hope for a rebound if oil prices recover.

Analysts tracking Pason have a 12-month average target price of $8.92, which is 40% higher than the current trading price.

The Foolish takeaway

We can see that both Methanex and Pason have lost significant value in the ongoing bear market. The two companies are still not completely out of the woods and may move lower if markets correct further. However, their upside potential makes the stock attractive to contrarian investors.

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2. TSX:MX (Methanex Corporation)
3. TSX:PSI (Pason Systems Inc.)

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