



Got \$1,500: Invest in These 3 Undervalued TSX Stocks for Higher Returns

Description

Driven by stimulus from the government and the central bank, the Canadian equity markets have recouped the majority of their losses after bottoming out in March. However, some of the TSX stocks failed to participate in the recovery rally and continues to trade at attractive valuations. If you have an appetite for risk, you can invest in these three undervalued stocks to earn high returns over the next three to five years.

Air Canada

Air Canada ([TSX:AC](#)) was one of the top performers of the last decade by returning over 3,700%. However, the pandemic-infused travel restrictions have weighed heavily on the company's financials and its stock price. In its [second quarter](#), its revenue declined by over 89%, as it operated at a fraction of its capacity.

The company has already burnt \$2.8 billion of cash in the first two quarters of this year. Further, last month, the Canadian government extended the travel restrictions until September 30, which could increase the financial burden on the company.

However, the company has ample liquidity of \$9.12 billion to ride out this crisis. The restart of the domestic flights and a fall in its cash burn are encouraging. Meanwhile, the demand for the easing of travel restriction has been increasing across the industry. With many countries having already eased the restrictions, I expect Canada to follow suit in the fourth quarter.

Although the passenger demand could take a couple of years to reach its pre-pandemic levels, Air Canada, being a market leader, could bounce back more quickly. So, with Air Canada trading over 60% lower for the year, it provides an [attractive entry point for long-term investors](#).

Pembina Pipeline

Second on my list is **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)), which has lost close to 35% of its

stock value this year. The decline in energy demand amid the pandemic lowered its revenue from its marketing and new ventures division, which dragged its overall revenue down during the second quarter.

Meanwhile, its base businesses remained strong and resilient, as they are highly contracted and are mostly immune to commodity prices. So, both the pipelines and facilities divisions reported growth in both volumes and revenue during the quarter. The company also pays dividends every month. The decline in its stock price has increased its dividend yield to an attractive 8%.

Due to its contractual arrangements and diversified businesses, the company expects to earn 90-95% of its 2020 adjusted EBITDA from fee-based contributions. So, given its high dividend yield and stable cash flows, Pembina Pipeline provides an attractive buying opportunity at these levels.

Rogers Communications

My third pick would be **Rogers Communications** ([TSX:RCI.B](#))([NYSE:RCI](#)), which has lost over 18% of its stock value this year. The pandemic-infused shutdown weighed heavily on the company's financials and its stock price.

During its second quarter, the company's revenue declined by 16.5%, while its adjusted EPS fell over 48%. The decline in roaming revenue amid the travel restrictions and fall in overage revenue, as more customers shifted to unlimited data plans, had dragged the company's sales down.

Meanwhile, the company's outlook looks strong. It was the first company to roll out a 5G network in Canada and is well ahead compared to its peers. Being a first mover, the company could increase its subscriber base in the next few quarters. The company is also planning to expand its Connected Home services across the country.

So, given its strong growth prospects, I believe Rogers Communications can deliver impressive returns over the next three to five years. Meanwhile, the company also pays quarterly dividends. Its forward dividend yield currently stands at a healthy 3.8%.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:RCI (Rogers Communications Inc.)
3. TSX:AC (Air Canada)
4. TSX:PPL (Pembina Pipeline Corporation)
5. TSX:RCI.B (Rogers Communications Inc.)

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Author

rmanjapla

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