UNDERVALUED: The 2 Biggest TSX Stocks for Bargain Hunters

Description

Canadian stocks at large have started looking overvalued after the steep rally in the last few months. The upward march might come under pressure if companies fail to put up a strong show in the upcoming quarterly earnings.

Interestingly, some **TSX** stocks are trading close to their multi-year lows and look attractive from the valuation front. Even if their earnings decline, the stocks could have a limited downside due to their already cheaper valuation. So, if you are sitting on cash, consider these TSX stocks for the long term.

Canada's integrated energy giant

Energy companies and investors have suffered a lot in the last couple of years. However, Canadian energy companies are relatively better placed compared to their U.S. counterparts. Investors can consider **Suncor Energy** (TSX:SU)(NYSE:SU) stock after its recent weakness. So far this year, Suncor Energy stock has dropped almost 60%, notably underperforming the **TSX Index**.

The integrated energy titan has corrected more than 15% so far this month and looks attractive from the valuation standpoint. Crude oil prices should reach some respectable levels post-pandemic, which will likely boost energy stocks like Suncor Energy.

The country's biggest energy company Suncor operates oil sand assets, four refineries, and a network of fuel outlets. With a presence all over the energy supply chain, Suncor stands tall against upstream energy companies. Also, Suncor has a conservative debt profile and sound balance sheet, making it resilient in turbulent times.

The $26 billion energy titan has a strong dividend profile, which yields 5% at the moment. Suncor trimmed its dividends by more than half in April on the back of crude oil price weakness. However, a further cut seems unlikely given its relatively strong financial position and lower breakeven point.

National Bank of Canada

Despite being the smallest among country's Big Six banks, **National Bank of Canada** (TSX:NA) has notably outperformed peers. The stock has returned more than 1,100% in the last decade, including dividends. Canadian bank stocks, on average, returned 800% in the same period.

National Bank stock staged a handsome recovery in the last few months. Its revenue as well as earnings in the fiscal third quarter of 2020, marginally fell compared to the prior-year period. Contrastingly, many peer banks reported a deep plunge in their financials in the same quarter.

The $22 billion National Bank has a noteworthy presence in Quebec and serves more than 2.5 million customers across the country. The bank managed to grow its net income by 5.5% compounded annually in the last 10 years. Diversified earnings base and superior credit quality make it stand tall in the industry.

National Bank stock is expected to pay a dividend of $2.84 per share in 2020. This implies an annualized yield of 4.3%, higher than TSX stocks at large.

Interestingly, National Bank is not the cheapest bank stock out there, but it is currently trading at a discounted valuation against its own five-year historical average. Given its growth potential and a relatively strong financial position, National Bank should particularly interest bargain hunters after its recent weakness.

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