Available at a Deep Discount: These 3 TSX Stocks Can Deliver Superior Returns

Description

Although the Canadian equity markets have recovered strongly from their March lows, some companies are still trading at deep discounts. So, investors with a long-term horizon could buy these stocks for higher returns.

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Pembina Pipeline

The pandemic-induced lockdown led to a decline in oil demand, which weighed heavily on the financials of **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). In its second quarter, the company's revenue and EPS declined by 29.9% and 68.3%, respectively. The weak performance from its marketing and new ventures segment due to the decline in crude activities, lower frac spreads, and compressed margins dragged its financials down.

However, the company's base businesses remained strong due to long-term, fee-based contracts. Both its pipeline and facilities segments reported an increase in volumes and adjusted EBITDA during the quarter. Further, the company focuses on increasing the contribution from fee-based contracts to above 90% this year compared to 85% in the last year.

Meanwhile, with the economic activities beginning to recover across the world, the oil demand could reach pre-pandemic levels over the next two to three years, which could benefit the company. So, at 40% down for this year, Pembina Pipeline would be an excellent buy. Further, the company also pays dividends every month. Its forward dividend yield currently stands at an attractive 8.7%.

Air Canada

Apart from energy, the airline industry was also hit severely by the pandemic, as the governments' worldwide imposed travel restrictions to check the spread. **Air Canada** (TSX:AC) has lost over 65% of its stock value this year. Low passenger volumes, soaring net losses, and a higher cash burn have dragged the company's stock price down.

Meanwhile, with ample liquidity of $9.12 billion at the end of the second quarter, the company can ride out this volatility. It has also taken several cost-cutting initiatives, such as reducing 50% of its workforce and retiring of 79 aircraft. This month, the company completed a sale and leaseback transaction for its nine Boeing 737 MAX 8 aircraft. The transactions delivered proceeds of $485 million, which further strengthened its liquidity position.

Although the international travel ban's extension until October 31 could increase its burden, the demand for easing travel restriction has been growing across the industry. The restart of domestic airlines and improved cargo revenues are encouraging.

CGI Group

Amid the pandemic, the demand for products and services provided by the technology companies has increased, driving their stock prices. However, **CGI Group** (TSX:GIB.A)(NYSE:GIB) has lost over 18% of its stock value this year due to the decline in the demand for its services amid the weakness in retail and distribution, and manufacturing sectors. In the quarter ended in June, its revenue and adjusted EPS had declined by 2.2% and 3.3%, respectively.

Meanwhile, CGI Group's backlogs at the end of the quarter stood at $22.3 billion. Its book-to-bill ratio increased from 88.9% in the second quarter to 93.1%. So, the demand for the company's services is improving. Many businesses have advanced their digital strategies amid the pandemic, which could benefit the company in the coming quarters.

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Further, the company's liquidity position looks healthy, with cash and cash equivalents of $1.37 billion. Along with organic growth, the company also makes strategic acquisitions to expand its business. With ample liquidity, the company can continue its acquisitions. So, given its strong track record and improving demand for its services, I am bullish on CGI Group.

CATEGORY

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3. TSX:AC (Air Canada)
4. TSX:GIB.A (CGI)
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