Undervaluation Alert: 2 TSX Stocks That Have Become Too Cheap to Ignore

Description

It's going to be a tough winter, with surging coronavirus cases that could soon overshadow the brighter, more hopeful medium-term outlook. With safe and effective COVID-19 vaccines that could crush this horrific pandemic at some point next year, investors have the right to be bullish. But whether investors have become too bullish amid another round of COVID-19 restrictions remains the million-dollar question.

In any case, investors would be wise to look to **TSX** stocks with wide margins of safety, as it's these names that could provide the best risk-adjusted returns as we enter what could be a roller-coaster ride of a start to 2021.

In many prior pieces, I've urged investors to adopt the "barbell" portfolio strategy to manage pandemic risks without missing out on amplified upside once a vaccine breakthrough, which I noted had the potential to happen at any time, sparked a historic melt-up.

Following November's historic melt-up, value investors should pick their spots carefully and keep their barbell in balance, even though it may be tempting to go all-in on the COVID-19 recovery plays now that a handful of vaccines will bring the pandemic's end. While there's still immense value to be had with certain reopening plays, there are also pockets of overvaluation out there, which, I believe, have yet to correct.

In this piece, we'll have a look at a dirt-cheap COVID-resilient play and a COVID-recovery play that still has room to run, even should the former play outshine the latter amid this horrific second wave. So, without further ado, consider **Alimentation Couche-Tard** (TSX:ATD.B), a recession- and pandemic-resilient defensive growth king and **IA Financial** (TSX:IAG), a bruised, underrated insurer and wealth management play with room to run.

Couche-Tard

Couche-Tard has done a remarkable job of holding its own amid the pandemic. Yet, investors still don't seem to appreciate the dominant global convenience-store kingpin and its incredible long-term growth story. Sure, the business of convenience stores is pretty boring. You wouldn't think that a banner like Circle K could make you rich.

While Couche has been pretty quiet on the M&A front compared to the early days of its bull run in the early 2010s, it'd be unwise to think the firm's best growth days are over. The company has a world of growth opportunities ahead of it. It just needs to find the right deal at the right price, a tough feat of late, given the recent run-up market "frenzy."

Couche has an incredibly powerful liquidity position, with enough to pull the trigger on numerous opportunities as they arise. With management's sights set on the high-ROIC Asian market, Couche could be in for some big multiple expansion over the coming years, as investors re-recognize the firm's earnings growth potential.

For now, Couche trades at a ridiculous 14.2 times trailing earnings multiple. If you're a long-term investor who's looking for a chance to pay a dime to get a dollar, Couche may be the horse to bet on.

IA Financial

IA, like Couche, is a dirt-cheap **TSX** stock that few investors look to amid market frenzies. The business of insurance isn't exactly sexy in an era of rock bottom interest rates, nor are non-bank wealth managers in an era where many young investors are taking it upon themselves to invest independently to avoid exorbitant fees from professional money managers.

As the economy heals from the COVID crisis, the business of insurance could heat up again. And IA, one of the more underrated Canadian insurance plays, is one of the better bets. The stock sports a modest but attractive 3.4% yield. But what the stock lacks in yield, I believe, it makes up for in the quality of its management team. The stock trades at 9.9 times trailing earnings and is a great bet while the stock is off 25% from its February 2020 all-time high.

Could IA reach its high in 2021? I certainly wouldn't rule it out, as the name plays catch up with the broader TSX.

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