ALERT: These 2 TSX Stocks Are Ridiculously Undervalued

Description

The market seems expensive, with traditional valuation metrics on the higher end for many of the past year's biggest winners. With the recent increase in the appetite for at-risk COVID-19 recovery plays, I think investors have a lot to gain by looking to the "defensive" TSX stocks that have been on the receiving end of the recent rotation.

Sure, COVID vaccines bode well for the recovery trajectories of various hard-hit stocks like Air Canada that depend on this pandemic's timely end. But I don't think the pandemic-resilient defensive stocks should be punished now that hope has been injected into this market.

Consider **Alimentation Couche-Tard** (TSX:ATD.B) and **North West Company** (TSX:NWC), two defensive retailers that didn't really participate in the recent vaccine-driven rally. The latter name sold off viciously on vaccine news for unclear reasons. So, if you seek deep value in today's "expensive" market, look no further than the two out-of-favour retailers, as they look to manage through this second wave of COVID cases.

Couche-Tard

Couche-Tard has been stuck in the $40 levels for quite some time. The company has been relatively quiet on the acquisition front, despite having more than enough cash and credit to scoop up an elephant amid the pandemic. The company has walked away from a big-league Caltex Australia deal, while watching its top peer 7-Eleven pull the trigger on a major, likely overpriced deal for Speedway assets. Management has been cautious, and many investors, I believe, are growing impatient with the firm that used to have the urge to merge.

While Couche hasn't found as many opportunities as it would have liked of late, I think it's a mistake to sleep on the stock now that shares are trading at 14.23 times trailing earnings. As a rare consumer staple and defensive growth stock, Couche deserves to trade at a premium. Once Couche gets more active with acquisitions, I suspect the stock could regain a 20-25 times earnings multiple as growth-hungry investors return to the name that may have been wrongfully dismissed as a low-growth stalwart.

Couche's managers are playing it cautious, and they're not going to acquire for the sake of appeasing traders. In due time, Couche will be active on the M&A front again, but to get the most upside, you'll need to be in the stock now, while it's off the radar of most other investors. In the meantime, the firm will be working on bolstering its margins with more compelling options such as fresh food. Should such margin enhancements be sustained while the firm goes on its next acquisition spree, earnings could skyrocket alongside the stock.

North West

North West is a lower-growth retail play with something that few other grocers have: a wide moat. As you may know, the grocery business comes with razor-thin margins, with competition that pushes for a race to the bottom.

North West, a discount retail and grocer, has a moat built around its locations. The company primarily serves the underserved communities that most other grocers wouldn't think about expanding to. The company has held its own amid the pandemic, yet the stock corrected in early November, as investors rotated back into the reopening plays.

While North West isn't a name that'll make you rich in a post-pandemic environment, I still think it's a worthy long-term defensive option at a compelling valuation. The company is boring, but with a moat surrounding its margins, I think the name is worth buying on the dip while shares are trading at 13.4 times trailing earnings. The firm just came off a solid quarter, yet the stock is back to where it was before the results were revealed. I think investors are effectively getting the quarter for free at $33 and change.

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