



3 Undervalued TSX Stocks That Can Deliver High Returns in 2021

Description

After a strong performance in November, the Canadian equity markets have continued their upward momentum in December, with the S&P/TSX Composite Index rising 2.5%. Along with the vaccine euphoria, better-than-expected October GDP numbers and the falling unemployment rate have supported the equity markets.

However, some TSX stocks are undervalued, despite the surge and offer excellent buying opportunities. In this article, we will discuss three companies that could deliver superior returns in 2021.

Bank of Nova Scotia

Bank of Nova Scotia ([TSX:BNS](#))([NYSE:BNS](#)) is up close to 24% since the beginning of November. The encouraging announcements on vaccines' effectiveness in preventing the spreading of COVID-19 and its [fourth-quarter performance](#), which was in line with expectations, drove the company's stock price.

In the fourth quarter, Bank of Nova Scotia reported adjusted EPS of \$1.45, representing a year-over-year fall of 20.3%. However, it improved by over 39% on a sequential basis. Its credit losses provisions stood at \$1.1 billion compared to \$2.2 billion in the third quarter. These high provisions would aid the company in absorbing high credit losses in fiscal 2021.

Meanwhile, the vaccine's widespread availability could improve economic activities, thus lowering Bank of Nova Scotia's provisions while driving its earnings. Despite the recent surge, the company still trades above 6% lower for this year, with its valuations trading at attractive levels. Its forward price-to-earnings multiple stands at 9.5, while its price-to-book multiple stands at one.

Additionally, the company pays quarterly dividends of \$0.90 per share at an annualized rate of \$3.60 and a dividend yield of 5.3%. So, given its attractive valuation, healthy dividend yield, and strong growth prospects, I am bullish on Bank of Nova Scotia.

Suncor Energy

Second on my list is **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), which owns and operates both upstream and downstream assets. Amid the weak oil demand, the company is trading 45.6% lower for this year. However, the U.S. Energy Information Administration (EIA) projects an optimistic near-term outlook for the energy sector. The federal agency expects the Brent oil prices to average around \$49 per barrel in 2021, representing a 14% increase from the expected average of \$43 per barrel in the fourth quarter of 2020.

Further, Suncor Energy's management expects its production to increase by 10% on a year-over-year basis, while its operating cash cost will fall by 8%. Further, its downstream utilization rate could increase by 6% to 93%. So, [we can expect Suncor Energy to report better numbers in 2021](#). The company also pays quarterly dividends of \$0.21 per share at a healthy yield of 3.8%.

TC Energy

Amid the weak oil demand, the throughput of **TC Energy's** ([TSX:TRP](#))([NYSE:TRP](#)) liquid pipeline division had declined, dragging its financials and stock price down. However, the company earns a significant percentage of its earnings from regulated assets or long-term contracts, which provides stability to its earnings.

Further, TC Energy is advancing with its \$37 billion secured capital programs, expanding its footprint across North America. These projects are also supported by long-term take-or-pay contracts, thus insulating the company's financials from price and volume fluctuations. Meanwhile, oil demand has been gradually picking up amid the uptick in economic activities, increasing the company's asset utilization rate. So, I expect TC energy's performance to improve next year.

Further, TC Energy has been rewarding its shareholders by raising its dividends for 20 consecutive years. It currently pays quarterly dividends of \$0.81 per share, representing a dividend yield of 6.1%. The company's management has also planned to raise its dividends by 8-10% next year.

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2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:BNS (Bank Of Nova Scotia)

5. TSX:SU (Suncor Energy Inc.)
6. TSX:TRP (TC Energy Corporation)

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