Got $6,000 to Invest? Here Are 2 Great Canadian Stocks That Are Severely Undervalued

Description

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If you're one of the many Canadians who's sitting on a record level of savings, now is as good a time as any to contribute another $6,000 to your TFSA. This piece will have a closer look into two TSX stocks that I believe are severely undervalued and could be ripe for a big rally in the new year.

Each name has solid fundamentals, predictable growth trajectories, and actual earnings. So, if you consider yourself a value investor who's not willing to put money on unprofitable companies solely because of their growth stories, consider the following:

Alimentation Couche-Tard (TSX:ATD.B) and **Restaurant Brands International** (TSX:QSR)(NYSE:QSR) are two wonderful but misunderstood businesses with severely undervalued stocks that I think could correct upwards by at least 50% over the next 18 months.

Alimentation Couche-Tard: A great Canadian, defensive growth stock at a value price

Couche-Tard is a name that begs for investor patience. The brilliant management team led by CEO Brian Hannasch is always on the hunt for opportunities to pay two quarters to get a dollar. With a world of acquisition opportunities, Couche-Tard remains in the early innings of its growth story, even though its beefy $48 billion market cap suggests otherwise.

Like the great Warren Buffett, Couche-Tard knows that the act of M&A itself does not create value. Acquisitions can actually destroy value, especially these days when people seem to be comfortable with paying up any price for something they have their eyes on. Couche-Tard is one of few firms that actually has a proven track record of achieving the "1+1=3" type of synergies that firms with the urge to merge seek to achieve.

With ample cash and credit to put to work on deals and a stock that's stuck in a consolidation channel in the low 40s, Couche-Tard could pop at any moment. Given the long-term growth potential, I find the stock's 13.7 times earnings multiple to be absolutely ridiculous and think the name deserves a price-to-earnings multiple of at least 25.

Restaurant Brands: Three powerful brands and one misunderstood company

Restaurant Brands is another company that gets no respect, likely because most other investors either don't understand the story or lack the patience to hold the name through temporary headwinds. Restaurant Brands is behind three of the most influential brands (Tim Hortons, Popeyes, and Burger King) in the fast-food scene. Yet QSR stock's valuation seems to suggest that Restaurant Brands will continue to fold like a paper bag amid COVID-19 pressures.

With drive-thru modernization efforts underway, a potential end to the pandemic, and continued menu innovation (think Popeyes's legendary chicken sandwich), I wouldn't be surprised to see Restaurant Brands stock make a move to $120 over the next year and a half.

For the calibre of capital-light growth you're getting, QSR deserves to trade at a hefty premium. Such capital-light growth is only possible with cutting-edge innovation or powerful brands. With Restaurant Brands, you'll receive both.

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In the meantime, the stock will probably be punished until QSR can pull the curtain on an incredible quarter. Of course, if you wait for such a blowout, it'll be too late to extract deep value from the name. Many of QSR's fast-food peers have already made a run past all-time highs, while QSR stock was stuck in its consolidation range. While QSR has lagged its better-performing peers in some areas, I think QSR stock will, in due time, be headed to its own all-time high on the other side of this pandemic.

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