
2 UNDERVALUED Canadian Stocks I'd Buy for 2021

### Description

The year 2020, which started on a rough patch, turned out to be an exceptional year for equity investors. The selloff in the market presented a once-in-a-lifetime opportunity to buy fundamentally strong stocks at rock bottom prices leading to stellar capital gains amid the recovery rally.



Looking at 2021, I remain optimistic and expect normalcy to return, especially in the latter part of the year, which is likely to give a significant boost to stocks that are still trading low and are undervalued. I expect corporate earnings to return to growth and companies to turn cash flow positive on improving demand.

Here we'll focus on two undervalued Canadian stocks that could deliver strong returns as the economic activities pick up the pace.

## Bank of Montreal

A weak economy and lower interest rates aren't a good operating environment for banks. However, it is an excellent time to buy undervalued bank stocks as economic recovery and pickup in credit demand could significantly boost the top lenders.

Speaking of undervalued bank stocks, consider buying the shares of **Bank of Montreal** (TSX:BMO)( NYSE:BMO). Bank of Montreal stock is available at a forward price/book value ratio (P/BV) of 1.2, significantly below Royal Bank of Canada and Toronto-Dominion Banks' forward P/BV ratio of 1.9 and 1.5, respectively.

While the bank's valuation attracts, I believe the uptick in economic activities are likely to drive its loans and deposits. Meanwhile, lower provisions and a decline in expenses are likely to support Bank of Montreal's bottom line.

Notably, Bank of Montreal also pays rich dividends. On average, its dividends have grown by 6% annually over the past several years. Currently, it pays a dividend of $4.24 a share annually, translating into a yield of 4.3%.

## Suncor Energy

I see **Suncor Energy** (TSX:SU)(NYSE:SU) as more of a recovery play than a value pick despite its stock trading at approximately 50% discount to its pre-pandemic levels. One of the biggest concerns surrounding the energy companies besides the uncertain outlook was the upward pricing pressure due to the large global crude inventories.

However, an uptick in economic activities, better coordination among the OPEC+ nations, and production cuts lent support to crude prices, which recovered significantly from the March-April lows last year. With Saudi Arabia announcing a production cut, the West Texas Intermediate (WTI) crude price shot beyond $50, an encouraging sign for Suncor Energy.

Despite the upward pressure, I believe oil prices could trend higher in 2021. However, it is likely to remain volatile in the short term. The vaccine rollout and expected improvement in economic activities in the latter part of the year could provide a strong foundation for growth for energy companies, especially Suncor Energy.



The company's integrated business model, long-life assets, and strong balance sheet position it well to benefit significantly from the recovery in demand. Moreover, Suncor's low-cost base should enable it to return to profit amid normalization in demand.

Moreover, Suncor Energy pays an annual dividend of $0.84 a share, reflecting a yield of 3.6%.

**CATEGORY**

1. Bank Stocks
2. Coronavirus
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4. Energy Stocks

**TICKERS GLOBAL**

1. NYSE:BMO (Bank of Montreal)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:BMO (Bank Of Montreal)
4. TSX:SU (Suncor Energy Inc.)

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