Stocks at a 10-30% Discount: Where to Invest $1,000 Right Now

Description

Thanks to the strong bull run over the past several months, Canadian stocks appear expensive on the valuation front. As valuations aren't appealing, I believe you should allocate a portion of your portfolio in stocks that are still trading at a 10-30% discount when compared to peers.

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The revival of demand amid the expected economic expansion in 2021 is likely to drive these stocks higher. So, if you have $1,000 to invest, consider buying these undervalued stocks to outperform the broader index. These companies have also been paying dividends consistently, which is likely to boost your overall returns.

Loblaw

Shares of Canada's largest food retailer are trading at a big discount when compared to peers. **Loblaw** (TSX:L) is trading at a forward P/E (price-to-earnings) multiple of 13.4, which is about 28% lower than its peer group average of 18.7.

Besides trading at a discount, Loblaw continues to impress with its strong operating performance. Further, the retailer continues to add convenient shopping options and is expanding its digital network and product offerings, which bodes well for future growth and suggests further upside in its stock.

The retailer operates under multiple banners those appeal to the masses. Further, its value proposition continues to drive its basket size. Loblaw's defensive business is likely to protect the downside risk in your portfolio and is unlikely to be impacted by large market swings.

Capital Power

Shares of the power producer, **Capital Power** (TSX:CPX), looks attractive on the valuations. Further, the expected recovery in demand following the economic reopening strengthens my bullish view on the stock.

Capital Power trades at a forward EV/EBITDA (enterprise value-to-EBITDA) multiple of nine, reflecting a discount of 26% compared to the peer group average of 12.2. While its shares trade at a discount, Capital Power offers a stellar dividend yield of 5.4%.

The company’s high-quality assets and long-term power-purchase agreements position it well to deliver robust cash flows that could support its growth. Meanwhile, the company projects 7% growth in its annual dividends in 2021, making it a top stock for income investors.

Bank of Montreal

Shares of **Bank of Montreal** (TSX:BMO)(NYSE:BMO) are trading at a P/BV (price-to-book value) multiple of 1.2, which is about 20% lower than its peer group average. Besides offering good value, Bank of Montreal impresses with its solid financial and operating performance. It has also consistently paid dividends for a very long period and has increased it at a CAGR of 6% in the last 15 years.

The economic recovery is expected to drive credit growth and support Bank of Montreal’s revenues and margins. Also, a decline in credit provisions and improved efficiency is likely to drive its earnings in 2021 and support the uptrend in its stock.

Pembina Pipeline

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Pembina Pipeline (TSX:PPL)(NYSE:PBA) is expected to benefit from the recovery in energy demand. Meanwhile, it is trading at a discount to peers and offers a high yield of 7.2%, which makes it an attractive investment opportunity at the current price levels.

Pembina Pipeline stock is trading at a forward EV/EBITDA multiple of 10.3, which is about 12% lower than the peer group average of 11.7. Further, the company operates a highly contracted business that generates strong fee-based cash flows and drives its higher dividend payments. I believe the company’s revenues and earnings are likely to improve in 2021 and drive its stock higher on the back of the recovery in energy demand.

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2. Coronavirus
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2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CPX (Capital Power Corporation)
5. TSX:L (Loblaw Companies Limited)
6. TSX:PPL (Pembina Pipeline Corporation)

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