2 Canadian Value Stocks to Help You Beat the TSX Index

Description

What a vicious rotation out of growth stocks we've witnessed over the past few weeks. The 10-year U.S. Treasury note yield is rising, making growth stocks worth less than they were entering this year. As I've warned in numerous prior pieces, momentum-chasing investors will get hurt by following the same growth-centric game plan that helped their portfolio crush the **TSX Index** in 2020.

Now, I have no idea if bond yields will reverse tomorrow, causing a massive spike in the hardest-hit big tech stocks. In any case, I'd look to bet on value and avoid unprofitable high-tech growth stocks right now, as I think there's a high chance that this growth-to-value rotation is not over.

Rotating back to the old-fashioned value stocks

Various pundits see U.S. bond yields swelling to (or at least close to) the 2% mark. Such a rewarding yield on the long-term note would make such fixed-maturity securities more competitive with equities and would cause even more pressure on the growthiest stocks that have fallen so heavily out of favour in today's rocky market.

Without further ado, let's get into some Canadian value stocks I'd look to pick up here. Whether you're looking for upside in this current rotation, or if you're trying to bring your growth-heavy portfolio back into balance to better weather this volatility storm, both names seem too cheap for their own good.

Consider convenience store kingpin and M&A rock star **Alimentation Couche-Tard** (TSX:ATD.B) and private equity holding play **ONEX** (TSX:ONEX), both of which, I believe, will put the broader markets to shame over the next 18 months.

Alimentation Couche-Tard: Is it a growth stock or a value stock?

Couche-Tard is actually a fast-growing firm that's been thrown in the value basket in recent years.

Management previously noted that it desires to double its net profits in five years. If that's not a growth business, I don't know what is! In any case, investors have lost faith in management following its latest fumble with its failed pursuit of French grocer Carrefour. The deal fell through almost overnight, yet investors have still yet to forgive the stock for management's shocking strategic pivot that confused plenty of sell-side analysts and its own long-term shareholders.

The Couche-Carrefour deal was a bombshell. And investors despised the surprise. Fortunately, the company still has enough cash and credit to pull the trigger on a blockbuster that may be to the liking of shareholders (a deal within the c-store universe and not the low-margin grocery arena?). In any case, Couche-Tard stock is severely undervalued in my books (12.9 times earnings and 0.8 times sales), making the stock more likely to rally and the stock market sags.

ONEX: Deeply discounted and massively misunderstood

Sticking with the theme of misunderstood stocks, we have ONEX, a company that most Canadians may not have heard of. The company is better known for acquiring WestJet Airlines nearly two years ago before the world fell into a horrific pandemic. The timing of the acquisition couldn't be worse, but, to be fair, few investment managers could have foreseen the socio-economic nightmare in the early innings of 2019.

ONEX has a lengthy track record of beating the TSX Index. And I think the stock ought to be forgiven by want superior results in an environment that could see value be made great again. The stock owns some magnificent businesses that are due to bounce back in the post-COVID world. With great managers running the show, the 0.7 times book price tag is far too low. So, if you're looking for value where it still exists, I'd pounce.

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