



2 Undervalued Stocks for 2021

Description

It's been a tough year for bargain hunters. Most stocks are trading at record highs. Meanwhile, the ones trading below "fair value" have serious challenges ahead. Practical investors seeking undervalued stocks have limited options. However, there's always some pocket of opportunity in every market.

With that in mind, here are my top two picks for [undervalued stocks that could deliver](#) respectable returns throughout 2021.

Undervalued stock #1

Alimentation Couche-Tard (TSX:ATD.A)(TSX:ATD.B) is my top pick for most undervalued stock in 2021. Several factors make this company an ideal buy for bargain hunters.

For one, investors seem pessimistic about the stock. Couche-Tard is currently trading at the same level it was two years ago, *before the pandemic*. The fact that it offers a paltry 0.83% dividend yield means long-term investors have had no value creation over this period.

However, ATD's business is about to see a massive surge when fuel consumption and domestic travel resumes. It could be a prime beneficiary of Canada's economic reopening in the second half of 2021.

Meanwhile, the company pays less than 10% of annual earnings in dividends. That's helped it accumulate a \$2.74 billion cash hoard. Couche-Tard wants to use that cash to trigger a major acquisition, but the team has been buying back its shares in the interim. In other words, this is an undervalued stock with strong fundamentals, a bright outlook, and a robust buyback scheme.

Undervalued stock #2

Magna International ([TSX:MG](#))([NYSE:MGA](#)) doesn't get the attention it deserves. As the world's largest auto parts supplier, Magna has long-standing relationships with the largest auto brands. It's managed to leverage these relationships into research & development partnerships in recent years to develop new [self-driving and electric vehicles parts](#).

Essentially, Magna now sits on a treasure trove of intellectual property and proprietary technology that could enable the future of transport. However, its approach is more understated and risk averse, which is why it perhaps doesn't get much media attention.

That's what makes it an ideal undervalued stock. Magna stock is trading at a forward price-to-earnings ratio of 11 and a price-to-book ratio of 2.62.

Magna believes the self-driving and electrification revolution in the auto sectors works to its favour. These shifts in the industry could vastly expand its margins as well as the number of auto manufacturers, which means it could attract more clients. The confluence of these positive tailwinds and a low valuation makes Magna the ultimate undervalued stock for 2021.

Bottom line

It's not easy finding value in 2021. Most stocks are either value traps or overvalued. However, Magna and Couche-Tard stand out as exceptions. Magna has tremendous tailwinds and benefits from the ongoing disruption of the global auto fleet. Meanwhile, Couche-Tard's management team has so much cash and believes the stock is so undervalued that they've implemented a robust buyback scheme.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:ATD (Alimentation Couche-Tard Inc.)
3. TSX:MG (Magna International Inc.)

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