2 Undervalued Canadian Stocks I'd Buy and Hold Forever

Description

Warren Buffett may not see that many bargains out there, but if you spot an undervalued Canadian stock, you should buy it, even if most folks deem this market as expensive. If the stock is of a wonderful business whose intrinsic value increases at a solid rate over time, you may have a name you should probably hold forever.

In this piece, we'll look at two undervalued Canadian stocks I'd feel comfortable holding for life. Without further ado, consider **CN Rail** (TSX:CNR)(NYSE:CNI) and **TD Bank** (TSX:TD)(NYSE:TD) if you seek deep value and long-term upside.

CN Rail

CN Rail keeps on rolling, through crises, pandemics, market meltdowns, and structural economic downturns. While cyclical, shares of the wide-moat rail giant have held their own far better than the broader markets. Why? CN Rail is the backbone of the North American economy. The economy always expands after it contracts. And CN Rail plays a massive role, as the page is flipped on a new chapter in the market cycle.

Instead of attempting to sell before the big drop with the intention of getting in before the bounce, most strong-handed long-term investors have opted to just hold on the Canadian stock and double down on any weakness. CN Rail was resilient through the coronavirus recession and is well poised to make a big run in the "Roaring '20s." Add **Kansas City Southern** into the equation, and I think shares of CN Rail haven't looked this attractive in quite some time. Some investors hated CN's acquisition of KSU, but I'm a huge fan, even if it's a tad expensive at US$34 billion.

CN Rail has a moat around north-south freight moves. And I think investors ought to be loading up on the acquisition-induced correction before the economic expansion takes hold.

TD Bank

I'm calling it: TD Bank is the best Canadian bank stock for your buck right now. Despite blasting off 65% in just over a year to a new all-time high of $87 and change, I still think the stock is undervalued and the risk/reward tradeoff is close to the best it's been in a while.

The macro backdrop hasn't looked this bright for the big banks in a very long time. TD and its peers will get a nice boost to their margins, all while loan growth looks to surge in the early innings of this economic recovery. With the Bank of Canada thinking about raising rates, TD could get a windfall far sooner than most expect. Higher growth at higher margins. That's the perfect formula for a surging stock.

Even as pandemic headwinds linger, I think TD stock is a buy here before earnings can compress further. The stock trades at 11.2 times earnings, making it the cheapest Big Six name as far as price-to-earnings (P/E) ratios are concerned. With conservative managers running the show and enough liquidity to acquire a U.S. retail bank, I think now is as good a time as any to load up while the dividend yield is still above the 3.6% mark.

TD is a premier bank stock. Yet its valuation suggests it's a laggard, with other bank stocks trading in the 12-14 times earnings range.

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Date
2025/07/28
Date Created

2021/06/10
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