



## 2 Undervalued Canadian Stocks to Buy for July 2021

### Description

One of the primary goals to invest your savings is to grow them over time and beat inflation rates consistently, thereby increasing your purchasing power. These savings can be used to buy a house, or pay off debt, or even fund your retirement. With interest rates hovering near record lows, it makes sense to buy and hold quality stocks over the long term.

You need to identify companies that are undervalued and trading at a discount to their intrinsic value. It might be a difficult process given that indexes are trading near record highs. However, we'll look at two such undervalued companies that should derive outsized gains for investors going forward.

### ARC Resources

The oil sector was completely decimated amid the pandemic, as economic shutdowns drove commodity prices to multi-year lows. However, as economies reopen and global markets stage a comeback, there is a good chance that [oil stocks](#) such as **ARC Resources** ([TSX:ARX](#)) will move higher in 2021 and beyond.

ARC Resources is a Calgary-based company that explores, develops, and produces crude oil, natural gas, and natural gas liquids. It holds interest in the Montney properties located in northeastern British Columbia and northern Alberta as well as at the Pembina Cardium property in central Alberta. At the end of 2020, the company had probable reserves of 929 million barrels of oil equivalent.

ARC Resources is trading at a market cap of \$7.41 billion and has lost close to 40% in market value in the last five years. However, Bay Street expects the company to almost triple its sales year over year to \$3.2 billion in 2021. Further, its top line is forecast to rise by 20.5% in 2022 as well.

This stellar revenue increase will allow ARC Resources to improve its bottom line from a loss per share of \$1.55 in 2020 to earnings of \$1.38 in 2021. It indicates the ARC stock is trading at a forward price-to-earnings multiple of just 7.4, which is really cheap given a dividend yield of 2.3%.

Further, its annual free cash flow could touch \$1 billion in 2021, and EBITDA margins might expand to

a healthy 60% as well. Analysts expect ARC stock to gain 30% in market value in the next 12 months.

## National Bank of Canada

The banking sector has made a spectacular recovery in the past year. Since the end of June 2020, shares of **National Bank of Canada** ([TSX:NA](#)) have gained 61% in market value. Despite these recent gains, NA stock is trading at an attractive forward price-to-earnings multiple of 10.9 while providing investors with a yield of 3%.

As the central bank is expected to lift capital return restrictions for financial institutions, investors can expect National Bank of Canada and peers to increase dividend payouts at an accelerated pace going forward.

The rollback of provisions for credit losses will also positively impact earnings. Analysts expect National Bank of Canada to [increase earnings](#) by 42% in 2021 and at an annual rate of 14.4% in the next five years.

### CATEGORY

1. Bank Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)
2. TSX:NA (National Bank of Canada)

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