



7 Undervalued Canadian Stocks to Buy in July

Description

Canada's main stock market index, the **S&P/TSX Composite**, lost 229 points to close 1.31% lower on Thursday before recovering 125 points to 20,186.34 by mid-day on Friday. Worries about troublesome coronavirus mutations globally sometimes take a toll on investor confidence, and market volatility could persist until the pandemic is totally behind us. However, long-term-focused investors have no reason to worry too much.

The stock market will always face one kind of risk or another on any given day. As long as humans remain uncertain about the future, risk-taking remains an essential part of investment decision-making. And unless one is okay with near-zero, risk-free returns from government bonds right now, investing in stable [undervalued dividend stocks](#) remains a viable option.

We still have to take calculated risks and deploy capital whenever undervalued investment opportunities arise. The market usually compensates long-term investors for risk taking.

Interestingly, there are seven potentially undervalued stocks on the TSX for long-term investors to buy right now.

Seven undervalued, low-PEG stocks to buy on the TSX right now

I have used legendary value investor Peter Lynch's popular PEG ratio, which divides a stock's price-to-earnings (P/E) ratio with the company's expected earnings-growth rate. A company with a PEG of less than one is undervalued given its growth outlook. Further screening for value stocks with low P/E ratios (under 12), low PEGs (below one), and low book value multiples below two brought up a list of seven fundamentally undervalued stocks on the TSX today.

Ticker	Company	PEG FWD	PEG Trailing	P/B Ratio	P/E Ratio
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TSX:CAS	Cascades	0.3	0.3	0.9	7.5
TSX:CF	Canaccord Genuity	0.5	0.1	1.5	6.7
TSX:DOO	BRP	0.9	0.2	—	10.3
TSX:EQB	Equitable Group	0.4	0.6	1.4	8.8
TSX:MFC	Manulife Financial	0.6	0.6	1.1	9.1
TSX:TD	Toronto-Dominion Bank	0.7	0.9	1.8	11.1
TSX:WEF	Western Forest Products	0.3	0.6	1.4	7.1

As is usually the case, financials dominate value stock categories. It's amazing that a fast-growing **BRP** has shown up here. I will discuss two typical value names in the above table.

Is TD Bank stock a buy right now?

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) is one of Canada's two largest chartered banks with a \$154 billion market capitalization. The bank has significant exposure to the United States retail banking market.

North American banks have largely recovered from a 2020 slump. Earlier fears of widespread loan losses during the COVID-19 pandemic did not materialize, thanks to stimulus checks to affected citizens from federal governments of Canada and the United States. Actually, U.S. banks are already resuming their dividend-growth spree after regulatory clearances, and Canadian banks, including TD Bank, could join them later.

TD Bank stock has rallied by 17% so far this year. However, its P/E ratio of 11 remains far below its five-year upper range of 15. A forward PEG of 0.7 indicates [TD Bank stock is fundamentally undervalued right now](#).

Although revenue could grow slowly this year, lower provisions may allow the bank to report a 44% year-over-year increase in normalized net income for 2021. GAAP earnings per share could hit a new six-year record at \$7.31 per share this year.

The market hasn't fully priced TD stock's near-term potential, or so it seems. The bank will reward investors with a 3.8% dividend yield, as they wait for more capital gains. Dividend increases are expected before year-end.

Cascades stock: A tissue paper producer on a roll

Cascades ([TSX:CAS](#)) produces and markets packaging and tissue products in Canada, the United States, and internationally. The tissue maker's stock enjoyed a 6% rally on Monday, when the company announced the "monetization" of its 57.6% controlling stake in Europe's RDM Group.

The company is selling its stake for €315 million (about \$468 million), representing a 24% premium to RDM's 90-day volume-weighted average stock price. The company will now focus on its growing North American packaging and tissue paper business.

Tissue paper was a brisk business during the pandemic when shortages were experienced globally, and it remains a defensive trade during normal economic times. Humans will always care about their personal hygiene. Further, the demand for packaging materials could remain strong as economies recover post the pandemic.

Cascades stock's P/E of 7.8 is too low for a company that produces a return on equity of 11%. The market expects CAS to post a strong 37% growth in earnings per share over the next five years. The stock's PEG is a low 0.3, indicating significant undervaluation.

Investors can book a 2% dividend yield annually while waiting for sizeable capital gains.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:CAS (Cascades Inc.)
3. TSX:TD (The Toronto-Dominion Bank)

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