3 Undervalued Stocks That Could Deliver Superior Returns

Description

The Canadian equity markets have remained resilient despite rising volatility. The benchmark index, the **S&P/TSX Composite Index**, currently trades 17.5% higher for this year. Meanwhile, few companies are still trading at a significant discount from their recent highs. In this article, we will look at three such companies that provide excellent buying opportunities.

Suncor Energy

Despite the improvement in the energy demand, **Suncor Energy** (TSX:SU)(NYSE:SU) is still trading at a discount of over 45% from its January 2020 levels. Its valuation looks attractive, with its forward price-to-sales and forward price-to-earnings multiples standing at 0.8 and 6.8, respectively. Meanwhile, the easing of pandemic-infused restrictions could boost economic activities, driving oil demand higher. Given its integrated business model, the company is well equipped to benefit from the rising oil prices and demand.

Suncor Energy expects to invest around $5 billion over the next five years, growing its base business and optimizing its integrated value chain. Meanwhile, these investments could drive its adjusted EBITDA by $2 billion. Also, the company's cost-cutting initiatives and debt-reduction program could boost its financials in the coming quarters. So, given its healthy growth prospects and attractive valuation, I am bullish on the company.

Air Canada

Second on my list is **Air Canada** (TSX:AC), which trades over a 50% discount from its January 2020 levels. Amid the travel restrictions due to the pandemic, Air Canada had grounded its aircraft, severely impacting its financials and stock price. However, the business environment is improving amid the widespread vaccination and elimination of some harsh travel restrictions. The easing of restrictions could boost air travel in the coming quarters.

Meanwhile, Air Canada has resumed its trans-border flights between Canada and the U.S. and to various other destinations worldwide. It is also looking at strengthening its cargo segment by adding more retired passenger aircraft later this year amid rising demand. With its liquidity standing at $9.77 billion as of June 30, the company is well equipped to fund its growth initiatives. Meanwhile, its valuation looks attractive, with its forward price-to-sales multiple standing at 0.7. So, Air Canada would be an excellent buy for investors with a three-year investment horizon.

Absolute Software

My final pick is **Absolute Software** (TSX:ABST)(NASDAQ:ABST), which trades over 42% lower than its 52-week high. The company had posted a mixed second-quarter performance earlier this month, which had dragged its stock price down. Meanwhile, the company's growth prospects look healthy. Amid the growing remote working and learning culture, the spending on cybersecurity is increasing.

Absolute Software, which provides endpoint security to over $500 million devices, could benefit from the increased spending on cybersecurity. Meanwhile, the company is also looking at enhancing and extending its platforms to protect its clients from cyber threats. Meanwhile, the company also acquired NetMotion Software last month. The acquisition could strengthen its competitive position in the endpoint resilience market.

Despite its healthy growth prospects, Absolute Software trades at a forward price-to-sales multiple of 2.8. It also pays a quarterly dividend of $0.08 per share, with its forward dividend yield standing at 2.2%. So, given its high growth prospects, attractive valuation, and healthy dividend yield, I believe Absolute Software would be an excellent buy right now.

CATEGORY

1. Energy Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ABST (Absolute Software)
4. TSX:AC (Air Canada)
5. TSX:SU (Suncor Energy Inc.)

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