2 Undervalued Stocks to Buy in September

Description

The **TSX Composite index** is in a strong show this year after a 19.4% year-to-date (YTD) gain places it in second place among North America's best-performing equity indices in 2021. The **S&P 500** maintains a narrow lead with a 20.7% YTD gain, while third-place-ranked **NASDAQ Composite's** 19.2% threatens to overtake the TSX any day. As markets continue to print record highs, opportunities for finding undervalued cheap bargains are much slimmer than they were in January.

That said, there are still some undervalued stocks on the TSX today. Legendary 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, is one trusted tool for finding bargain opportunities in today's frothy market.

In Mr. Lynch's value investing strategy, a company with a PEG of less than one is undervalued given its growth outlook. Yet there are names with PEG ratios of about 0.5 on the TSX.

Let's have a look at two such companies right away.

Cascades

Cascades's (TSX:CAS) stock price has risen by 3.6% since my last coverage in July, but shares remain significantly undervalued — even after a recent 50% dividend increase.

The company is a market-leading manufacturer of packaging materials and tissue paper products. It occupies the number seven spot among the largest North American tissue manufacturers by production capacity.

After record-breaking tissue paper demand in 2020, as customers hoarded the essential product during the height of COVID-19, tissue paper segment earnings have softened lately, yet the product category remains a defensive business line under all economic scenarios. Individuals will always care about personal hygiene.

Thankfully, the packaging business line came through strongly during the second quarter.

Management is so confident about the business's strength and future prospects that it raised CAS's quarterly dividend by 50% in August.

Investors in CAS stock today will earn a better dividend yield of nearly 3% on an annualized basis. The company's low leverage and streamlined business after the disposal of RDM (the Europe boxboard business) this quarter makes it a better business to own today.

Most noteworthy, Cascades stock still looks undervalued today. A price-to-earnings multiple of 9.8 and a PEG ratio of 0.5 indicates a potentially undervalued value stock.

Equitable Group

Equitable Group (TSX:EQB) stock's year-to-date gain of 52.9% and a 12-month price return of 96.9% showed some strong outperformance for EQB stock. Even so, shares still seem undervalued to this day.

The Equitable Group is an innovative financial services firm providing retail and commercial banking services to Canadians through its digital-banking-focused subsidiary Equitable Bank.

Digital banking adoption is rising fast in Canada, and the EQB released an emphatic second-quarter financial report in July. The biggest highlights in the bank's most recent earnings numbers were the 79% year-over-year growth in digital customers and a 99% year-over-year increase in customer deposits to a record $6.5 billion.

Most noteworthy, digital transactions soared by 101% over the past 12 months, and management said the customer lifetime value is now more than 10 times higher than the bank's account acquisition costs, meaning that business from each new bank customer is now more profitable than before.

Yet valuation remains low for the challenger bank with capital ratios higher than many of its larger peers.

Given a current historical price-to-earnings (P/E) multiple of 9.4, and double-digit growth expected over the next five years, EQB stock prints a PEG ratio of just 0.5, indicating shares are still undervalued given the bank's strong future growth prospects.

Watch EQB stock's rising book value

What's more, book values for bank stocks matter more than they do for several other industries, and folks, EQB has increased its book value per share by a significant margin historically. Book value increased from $64.57 per share in 2017 to $93.35 in 2020. EQB stock's book value surpassed the $100 mark for the first during the past quarter after a 4% sequential increase to $101.94 by June. Analysts project a $109 target by December 2021, and we could see $125 by the end of next year.

This is a value play that is actually growing.

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