Stock Market Pullback? This Stock Is Looking Like a Bargain Now

Description

Global stocks are looking weak, as investors lose their appetite for risk. At the time of writing, the **TSX 60 Index** has lost 1% in morning trading. Several tech stocks are down far more. Some believe there could be more pain ahead. It's early to predict a stock market pullback but never too early to prepare.

Stock market pain usually surfaces opportunities. Beaten-down stocks that most investors have overlooked could be the best performers in the years ahead. Here's a Canadian stock that's now looking like a bargain.

Bargain stock

Canadian Pacific Railway (TSX:CP)(NYSE:CP) is a top pick for the months ahead. The world faces a raw material supply crunch, which puts this company in a favourable position. Demand for coal, ethanol, forest products, and fertilizer is likely to skyrocket, as demand recovers across North America. However, the stock doesn't reflect this yet.

The stock has taken a significant beating and is now trading at its lowest level for the year. However, this 20% pullback from all-time highs might be the perfect opportunity for bargain hunters.

With the pullback, the company's valuation has improved at a time when fundamentals are showing signs of improvement amid the aggressive economic opening in the face of the COVID-19 pandemic. Canadian Pacific Railway has won a major bidding tussle and is now poised to become one of the biggest railway operators in North America.

Canadian National Railway dropping out of the race to acquire **Kansas City Southern** has paved the way for CP Rail to complete the acquisition for about $27 billion. With the acquisition, the company is poised to profit from $1 billion worth of synergies within three years compounded by massive returns in the future.

Additionally, Canadian Pacific Railway will become the largest railway operator in North America by adding 50% more rail lines and tracks to its portfolio. The company will expand its footprint into Mexico, where Kansas City Southern maintains strategic operations. Going through the agriculture, oil, and gas sectors between Canada, the U.S., and Mexico, Canadian Pacific Railway should strengthen its revenue base.

Valuation

CP Rail should generate more free cash flow to increase its dividend. Its current yield of 0.92% lags behind the competition. The stock is also trading at a price-to-earnings ratio of 18, which is reasonable given the company's fundamentals.

CP Rail is already profitable, but the acquisition will only enhance its profit metrics by strengthening its operations across North America. In other words, growth seems locked in regardless of market conditions in the years ahead.

Bottom line

Global stocks are looking weaker as interest rates rise and prices for raw materials skyrocket. The economy could face headwinds in the months ahead. But essential services like freight and rail roads could see higher demand, which makes them ideal targets for investors.

If you're looking for a relatively safe and undervalued opportunity, CP Rail should be on the top of your list. Keep an eye on it.

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Date
2025/08/25
Date Created
2021/09/28
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