2 Cheap TSX Stocks to Buy in an Expensive Market

Description

The **TSX Index** is full of stocks trading near record highs, but some top stocks still look undervalued and could soar next year.

Suncor

Suncor (TSX:SU)(NYSE:SU) trades near $28.50 per share at the time of writing. The stock picked up a nice tailwind in the past few weeks, but sits below its 2021 high around $31 and is significantly off the $44 it fetched before the pandemic. West Texas Intermediate (WTI) oil trades near US$83 right now. It was about US$60 in early 2020.

With these numbers in mind, SU stock appears cheap, given the high price of oil and the outlook for fuel demand.

The rise in WTI oil through 2021 is driving strong profits at Suncor, and that trend is expected to continue in 2022. Oil demand is rebounding more than previously anticipated. A global shortage of natural gas has forced electricity producers to switch to oil for power generation. At the same time, airlines are ramping up capacity and commuters are starting to head back to the office.

Suncor's downstream businesses include refineries and retail operations. These took a hit as fuel demand plunged last year, but the removal of travel restrictions and the reopening of the economy are supporting a recovery in the demand for jet fuel, gasoline, and diesel fuel.

Suncor is using extra cash to pay down debt and buy back shares in 2021. A large dividend hike could be on the way in 2022. Suncor slashed the payout by 55% last year. The move upset long-term shareholders and reduced market confidence in the stock. Suncor's peers that maintained their payouts in 2020 and raised distributions this year have outperformed Suncor by a wide margin.

The stock should catch up in 2022.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) recently hit a new 12-month high, but the stock still appears undervalued.

The company is working through a $21 billion capital program that is expected to drive adequate revenue growth over the next four years to support annual dividend increases of at least 5%.

TC Energy's core focus on natural gas transmission and storage enabled the company to cruise through 2020 in good shape. As domestic and international demand for natural gas rises, TC Energy is in a good position to benefit. The company is building a pipeline from key gas plays in British Columbia to liquified natural gas (LNG) facilities on the B.C. coast where the gas can be shipped to customers in Asia.

In addition, TC Energy's U.S. operations connect the large Marcellus and Utica shale gas region to the U.S. Gulf Coast where LNG sites exist or are being built. The international prices for LNG are currently much higher than the domestic prices in Canada and the United States. Global LNG demand is expected to grow in the coming years as countries switch from oil and coal to gas-fired power production.

TC Energy trades near $67 per share at the time of writing. The stock price was $75 before the pandemic, so more upside should be on the way in the next few years. Investors who buy the stock today can pick up a 5% dividend yield.

The bottom line on cheap TSX stocks

Suncor and TC Energy still appear undervalued in an otherwise expensive market. The companies are leaders in their respective industries and should deliver strong dividend growth in 2022 and beyond.

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