2 Undervalued TSX Stocks for 2022

Description

Many investors and pundits are less sanguine about 2022, with plenty of risks up in the air and tougher year-over-year comparables. Undoubtedly, all eyes are on rate hikes, how global supply chains will resolve themselves, the ongoing coronavirus pandemic, inflation, and economic growth.

Stagflation has been a word thrown around ad nauseam of late. But then again, the word “depression” was also a hot topic of discussion back in February and March of 2020 when the stock market melted down. While plausible, I believe stagflation is unlikely to strike viciously over the next 18 months.

Indeed, disinflationary pressures could easily calm inflation. The real question is how the market will react to rate hikes as economic growth looks to become more modest. It’s tough to tell what’s ahead. There are risks and valuations may the bar pretty high. While 10-15% returns next year seem highly unlikely, with some viewing the odds of a 5-10% annual decline being likelier, it’s vital to acknowledge that we don’t know how things will unfold over the next year and hedge our bets accordingly.

Suncor Energy: An undevalued TSX stock bargain that could make up in 2022

Valuations are a tad on the frothy side, at least in the U.S. Here in Canada, there are still plenty of bargains out there across a wide range of industries. The energy sector looks incredibly strong heading into the new year. As supply-demand imbalances alleviate in the new year, there’s a chance that West Texas Intermediate (WTI) could pull back.

In any case, many hard-hit energy stocks like **Suncor Energy** (TSX:SU)(NYSE:SU) don’t even appear to price-in WTI at north of US$80. It’s as though investors already expect a blow-off top in the energy markets. With such a negative already baked in, the name looks like one of many undervalued bargains on the **TSX** for 2022.

The stock is still staging a recovery from the 2020 implosion suffered last year. Although the 2022 trajectory could be bumpy, I still think the name is one of the better risk/reward plays for those seeking to take a value approach to edge out the markets in what could be another turbulent year.

Suncor is a well-run integrated energy play that doesn't seem appreciated for its cash flow resilience. With the stock trading at a modest premium to book value, investors should consider the name if they lack energy exposure. Fossil fuels, while unsexy, can help boost a portfolio's overall risk/reward in a market that could continue turning against high-multiple growth.

Manulife: A cheap dividend play, but is it too cheap?

Manulife Financial (TSX:MFC)(NYSE:MFC) is another dirt-cheap Canadian stock that sports a trailing price-to-earnings (P/E) multiple that's close to the lowest it's been outside of a crisis.

Both Suncor and Manulife are very different bets. But they seem like magnificent bargains that can help stock pickers do better than markets over the medium and long run. So, instead of trying to time Mr. Market's next step (that's impossible), be a buyer of undervalued TSX stocks with a relative margin of safety.

Indeed, life insurance products can be a tough sell, especially when economic growth begins to stagnate or even reverse. That's why investors don't seem to appreciate Manulife and its attractive North American and Asian businesses. Manulife isn't a value trap that many see it for, though.

And if we aren't due for stagflation, Manulife could sustain a multi-year breakout that could be very rewarding to shareholders who stood by the name despite its less-than-stellar multi-year performance.

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1. Investing

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3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SU (Suncor Energy Inc.)

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