



2 TSX Stocks That Look Severely Undervalued Today

Description

Whenever you spot a potentially undervalued TSX stock, you should look to act, even if you think the markets are going to get turbulent over Omicron variant fears or rate hikes. Indeed, rate hikes are coming, and inflation looks to be unforgivingly persistent. That makes the opportunity costs of hoarding cash that much higher. Indeed, risks can be managed in the equity world. One does not need to try to be a hero by attempting to catch the high-multiple growth stocks that are falling knives that could easily continue to nick investors who attempt to catch them.

Could high-multiple stocks implode, as they did during the 2000 dot-com bust? That's a real concern. It's really tough to evaluate companies that aren't even profitable yet. Valuing firms on just sales can be trickier. As such, investors looking to steer clear of volatility should insist on buying stocks that provide more clarity on earnings and cash flows. The more predictable a firm's earnings trajectories, the greater clarity you'll have in the valuation process, and the greater your chances will be of bagging a true bargain, even in the face of a speculative purge.

Now, nobody knows if the purge on high-multiple names will continue or drag into 2022 and beyond. The 2000 bust was prolonged, and a lot of high-multiple names got rocked. While they eventually rose from the rubble, investors who bought at the wrong time struggled to recover. That's why boring stocks may be the better way to go, as high-multiple names continue their contraction as we inch ever so closer to a rising-rate environment.

So, which stocks look undervalued today?

Consider growth companies that are profitable with plans to become even more profitable over the medium term. Think solid growth stories with a valuation that's at the lower end.

With rates likely to ascend, potentially at a rapid rate to combat inflation, the financials could be at the cusp of a generational rally.

For that reason, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) is a name that's worth considering. On the flip side, higher rates aren't great news for firms in the utility space, given their costs of borrowing

will creep higher. That said, a high-quality name like **Algonquin Power & Utilities** ([TSX:AQN](#))([NYSE:AQN](#)) looks to have already sold off on the trend. Indeed, there are other company-specific issues at Algonquin, but the stock seems way too oversold, especially for long-term thinkers.

Bank of Montreal

BMO stock took a hit following news that it acquired California-focused Bank of the West. Indeed, BMO already has a sizeable U.S. presence, the Bank of the West deal bolsters its presence down south. Although the deal wasn't cheap, it also wasn't nearly as expensive as it could have been in this environment that commands higher multiples. Further, Bank of the West has room for improvement.

I think BMO, one of the better-run banks out there, can bring out the best in the assets as its U.S. exposure expands west. It's an interesting opportunity at hand, but for now, some seem skeptical, primarily due to valuation concerns. I think investors willing to give BMO the benefit of the doubt could be dealt with profound rewards, as the tables tilt in favour of the financials.

Algonquin

Algonquin is an incredible renewable power play that's fallen on hard times. [COVID](#) issues and a questionable acquisition have made the name tougher to evaluate. Add rising rates into the equation, and it's no mystery as to why the name has been [retreating](#) so violently.

I think the selloff is overdone, and those with long-term horizons will do well with the dividend-growth stud in the making. Although the pace of dividend hikes could slow, I still find the underlying value in the name to be considerable going into the new year. My takeaway? The 4.7% yield is ripe for picking for those seeking deep value and passive income.

CATEGORY

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