3 Undervalued Gems to Kickstart 2022

Description

As a value investor, it's easy to fall into the trap of judging stocks based *mostly* on their value. But a higher discount doesn't always mean a great payout in the future. In fact, sometimes undervaluation can be a sign of serious trouble.

However, there are certain undervalued gems that may shine quite bright when the light hits them just the right way — i.e., when the market conditions are ripe for growth.

A renewable company

While it may be a dramatic description, **Polaris Infrastructure** (TSX:PIF) can be dubbed a "fallen giant." The company used to trade way above what the most expensive Canadian stock (**Constellation**) currently trades for before 2011. Even by 2014, the company had a three-digit price tag. But it hasn't been anywhere near that mark for a very long time.

The small price tag has its own benefits. It's easy for the stock to spike when the conditions are favourable. In the last five years, the share price grew 171% from the lowest and the highest price point, and the two were less than two-and-a-half years apart. So, if you buy the dip now, at its currently undervalued price, you may have a chance to capture a similar upside and double your capital in the next five years.

A pulp and paper products company

Canfor Pulp Products (TSX:CFX) is a pulp and paper products company that's currently trading at a price-to-earnings ratio of 8.45 and a discount of almost 41% from its post-pandemic peak. But the discount is much higher if we look into an older height — i.e., the 2018 price, which was more than 4.5 times the current share price.

One weakness of Canfor as a company (and a holding) is its product line. It's a paper company in an era when we are going digital at an incredible pace. Paper hasn't gotten obsolete yet, but the world is moving in that direction quite quickly. That business segment was in the loss in the last quarter as well, and it's a pattern that's likely to continue.

But if the company starts allocating its resources to more successful areas, like lumber, the stock may reach its five-year peak, making investors (who buy now) relatively richer in the process.

An iron ore company

The Australian **Champion Iron** (TSX:CIA) has shown astounding growth in the last few years. If you had bought the company in 2019, you would have grown your capital by 150% before reaching the middle of the year. And by the 2021 peak, your stake would have grown well over 500%. But even if you missed your chance to buy the company then, you may consider buying now at its undervalued price.

Or, better yet, you may wait till the stock is more adequately discounted and close to its 2019 levels. The company's value can rise again if there is a strong demand for iron. The growth in China has been the main trigger for iron ore prices in the last few years. If there is growth and high demand for iron ore or steel in China, the prices can soar. And with high iron ore prices, companies like Champion Iron might see their market value soar as well.

Foolish takeaway

All three of the undervalued stocks have shown, in the last five years, that they are at least capable of doubling your capital when the market conditions are right. So, if you buy now and wait long enough, you may see your capital double or go even higher. Exiting then would be a smart move, so you could buy the dip again and wait for the cycle to repeat.

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