These 2 Discounted Stocks Rose Over 15% Last Week: Should You Buy?

Description

Amid easing concerns over COVID-19 and rising commodity prices, the **S&P/TSX Composite Index** rose by 2.6% last week. However, the following two cheap Canadian stocks rose over 15%, outperforming the broader equity market. So, let's assess whether the uptrend in these two stocks could continue, perhaps providing excellent buying opportunities.

Real Matters

Last month, **Real Matters** (TSX:REAL) reported its first-quarter earnings, with its top-line declining by 10.4%. The growth in the U.S. appraisal and Canadian segments was more than offset by a 59.4% decline in revenue from the U.S. title segment, dragging the company's overall revenue down. Amid the decline in its revenue, its adjusted EBITDA and EPS also fell by 66% and 71.4%, respectively. The company's management blamed the volatility in 10-year bond yields for creating headwinds for its business.

Amid the weak performances, Real Matters had witnessed a steep correction over the last 13 months, with its stock price falling over 70%. Meanwhile, investor appear to believe the sell-off is overdone, thus leading to a recovery in its stock price last week, with its stock price rising by 15.6%. Despite the surge, the company is still trading at a reasonable forward price-to-earnings multiple of 18.5. Also, analysts favour a 'hold' rating for the stock, with their consensus price target representing an upside potential of over 50%.

Meanwhile, with inflation at a multi-decade high, the U.S. Federal Reserve could increase interest rates multiple times this year. Higher interest rates could lower refinancing volumes, thus hurting the company's financials. So, I would avoid this stock in the near term.

HEXO

Second on my list would be **Hexo** (TSX:HEXO), which rose 21.5% last week. Despite the surge, the company trades at a 95% discount from its 52-week high. In its recently reported first-quarter earnings, the company’s revenue increased by 29% on a sequential basis to $50.2 million, with the acquisition of Redecan and 48North contributing $14.6 million to its revenue. However, its net losses increased to $116.9 million, representing a sequential increase of 72%. The rising losses and weakness in the cannabis sector dragged the company’s stock price down.

Meanwhile, HEXO’s management has undertaken several cost-cutting initiatives, such as the closure of redundant production facilities, reduction of its selling, general, and administrative expenses, optimizing its production network, and leveraging the capabilities of its recent acquisitions. The company expects these initiatives to deliver incremental cash flows of $37.5 million in fiscal 2022 and $135 million in fiscal 2023. The company is also expanding its product offerings and geographically expanding its product availability to drive growth.

Amid the steep correction in its stock price, HEXO’s forward price-to-sales and price-to-book have fallen to 1.1 and 0.2, respectively. Meanwhile, among the eight analysts covering the stock, four have issued a ‘hold’ rating, while three have issued a ‘buy’ rating, and one analyst has issued a ‘sell’ rating. Analysts’ consensus price target represents an upside potential of over 280%.

Despite the company’s recent initiatives, I am skeptical of its financials improving in the near term. So, I would like to avoid HEXO in the near term and instead invest in **Tilray**, which has been reporting positive adjusted EBITDA for the previous 11 quarters.

CATEGORY

1. Cannabis Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HEXO (HEXO Corp.)
2. TSX:REAL (Real Matters Inc.)

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