3 Downtrodden Gems That May Break Out in 2022

Description

Not all discounted stocks are discounted because investors rapidly started exiting their positions in that particular company. It's often the side effect of being weighed down by a poorly performing sector.

But even individually downtrodden stocks (when their sectors and industries are thriving) might break out under the right conditions, and the recovery-fueled growth can be significantly more potent than usual steady growth.

A stock weighed down by the sector

HEXO (TSX:HEXO)(NASDAQ:HEXO) is currently cheaper than ever since its inception. The stock didn't fall below $1 at the maximum depth during the 2020 crash, but it's currently trading at $0.76 per share. That's over 57% down from its early day lows and over 98% lower from its peak valuation in April 2019. This discount stands out among the downtrodden marijuana sector, which is both a danger sign and a unique opportunity.

Even if we discard the hope that the stock will ever reach its all-time high valuation and plan for recent growth spurts, the stock can quite easily offer 13 times capital appreciation by reaching its post-pandemic peak of $10.17 a share. One catalyst for this growth would be U.S. legalization, and others might be the company actually achieving its fiscal year income projections.

A stock experiencing a brutal correction

Correction phases are healthy, as long as they are relatively short term. However, the correction of **Xebec Adsorption** (TSX:XBC) has been going on for too long. It has pushed the stock down 84% from its post-pandemic peak, but that's an unrealistic level to project for. That's because the post-crash growth of the stock was far too rapid, despite the fact that Xebec was already growing at a powerful pace.

At its current price, the stock is over 62% below its pre-pandemic peak, and it's still going downward.

But its business model, healthy financials, undervaluation, and, most importantly, its prospects in a green market all point towards a stock that's poised to soar again.

If you can take advantage of the heavy discount it's offering right now, the chances that you will turn in a solid profit by holding it long term are quite high.

A new stock

Telesat (TSX:TSAT) is most likely downtrodden, because it's a new, untested stock in a relatively volatile market, even though it's not a new company. Telesat is an Ottawa-based satellite operator that has been around since 1969. It offers a wide range of connectivity solutions and caters to several market segments, including the government.

The company operates a network of over 298 LOE (lower Earth orbit) satellites and 13 GEO (geostationary) satellites. The latter fleet is mostly positioned at or near North America and South America.

While the company is well positioned to grow organically, there is one area where expansion potential is significant — i.e., satellite-based internet. The company can utilize its extensive LOE network for this service.

Foolish takeaway

The three discounted and undervalued stocks are poised for growth when the market conditions are right, whether it's a sector-wide recovery or rising demand for their products and services. The risks that come with such a heavy discount are well balanced with the growth potential these downtrodden gems offer.

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3. TSX:XBC (Xebec Adsorption Inc.)

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