2 Ultra-Cheap Canadian Stocks I’d Buy This May

Description

Canadian stocks are starting to look so much more attractive than their U.S. counterparts. First, the TSX Index has done a far better job of holding its own amid the market selloff. Yes, the TSX Index has still fallen into a correction (that’s a 10% plunge from peak to trough). However, it’s hard to ignore all the value and relative outperformance.

Canada’s market is full of commodity and energy plays that are roaring higher, as almost everything else sinks. But it’s not just these plays that should have Canadian and American investors buying Canadian with their next stock purchase. There are cash-rich value stocks out there that have the means to grow their earnings, even as the economy begins to show signs of slowing. These are the types of stocks that investors want to own with interest rates poised to rise.

Gone are the days when you can buy a sexy growth stock based on just a story and price momentum. These days, you need strong fundamentals: a healthy balance sheet and a means to generate real cash earnings. As the puck moves back towards value and away from story stocks, the Canadian stock market could vastly outperform the S&P 500 and Nasdaq 100 indices, not just for 2022, but perhaps through 2024.

It’s been a while since Canadian stocks have stomped the performance of U.S. names. In this piece, we’ll have a look at two TSX stocks I’d look to buy this May 2022.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD) has quietly put the rest of the market to shame this year, stealthily drifting to new highs just shy of $60 per share. Up over 12% year to date, the global convenience store company is at a fresh all-time high.

Still, the stock is dirt cheap at 17.4 times trailing earnings. With potential M&A opportunities to execute, excitement has picked up of late. With so much cash and credit available, management can buy Petro Canada gas stations or the U.K.-based EG Group. If management chooses, it could buy both. Regardless, Couche-Tard is finally starting to see a means to take its net income growth to the next level.

With the perfect mix of organic and inorganic growth efforts, ATD stock is quickly becoming a superb value and momentum play in 2022. Yes, retailers are bland, but with higher rates and rising odds of recession, predictability ought to trade at a hefty premium. In that regard, ATD stock strikes me as a deep value, even at today's heights.

CN Rail

CN Rail (TSX:CNR)(NYSE:CNI) is another Canadian blue-chip darling that's starting to look incredibly attractive amid its dip. Shares corrected over 16% alongside the TSX Index, with most of the damage coming since the start of April. Indeed, a slowing economy doesn't bode well for a railway firm like CN.

Though CN hasn't been all that it can be in recent years, I am encouraged by the new CEO, Tracy Robinson. I'm very excited to see where she takes the firm, and activist investors are, too.

CN Rail hasn't been the most efficient since pandemic headwinds. Still, the company has room to expand its operating ratio, and it will be interesting to see how the firm betters itself under its new leader. With a 20.9 times trailing earnings multiple and a 2.1% dividend yield, CNR stock looks like a solid value, even as rates rise and the economy takes a seat.

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