Strong Buys: Hit a Homerun With 2 Undervalued Stocks

Description

Investors can hit a homerun when a stock attains its full potential. Legendary investor Warren Buffett earned millions of dollars by focusing on undervalued equities. **Methanex** (TSX:MX)(NASDAQ:MEOH) and **Cargojet** (TSX:CJT) are among the TSX stocks trading below their intrinsic values.

The share price of the methanol producer is continuously rising, while the provider of air cargo services maintains a competitive moat, despite the underperformance. Market analysts are bullish on both stocks and see considerable upside in the next 12 months. The overall return should be higher if you include the dividend payments.

Solid market fundamentals

Methanex fly under the radar, yet it outperforms the TSX year to date (+27.43% versus -2.40%). Also, at $63.61 per share, the trailing one-year price return is 49.75%. This $4.6 billion company is the world's largest producer and supplier of methanol to major international markets.

Apart from Canada, Methanex has production facilities in Chile, Egypt, New Zealand, Trinidad, and the United States. In the three months ended March 31, 2022, sales volume (-2%), revenue (-6%), and net income (-41%) dipped year over year. According to management, the change in the mark-to-market impact of share-based compensation and lower effective tax in Q4 2021 caused the drop in net income.

Despite the low industry operating rates, the quarter's highlight was the strong cash flows that reached $1.1 billion. Methanex's president and CEO John Floren said, "I am pleased to see strong industry conditions continue through the first quarter and into the second quarter."

Floren added, "Our continued strong financial performance allows us to continue our long track record of returning excess cash to shareholders through our increased dividend and upsized share buyback program." Because of the continued strength of the balance sheet combined and solid methanol market fundamentals, Methanex increased its dividend by 16%.

The company also paid $101 million in regular dividends during the quarter. If you invest today, the dividend yield is 1.17%. The 12-month average price target of market analysts is $77.02 (+21%), although Methanex can go as high as 37% to $87.32.

New opportunities

Cargojet flew high in 2020 during the first COVID year, delivering 109% total return. The airline stock ranked 10th in the TSX30 List, the flagship program for growth stocks. However, it lost steam in 2021 and lost 22% for the year. As of June 1, 2022, the share price is $144.75, or a year-to-date loss of 12.96%.

The $2.5 billion company reported a net loss of $56.4 million in Q1 2022 compared to the $89.4 million in Q1 2021. However, revenue growth was stellar. Due to the robust demand for global air cargo, Cargojet's revenue jumped 46% year over year to $233.6 million. Adjusted free cash flow also increased 21% to $42.7 million.

Its president & CEO Dr. Ajay Virmani said Cargojet is constantly adapting to the changing air-cargo landscape. It's also creating new opportunities amid the strained traditional supply chains. Market analysts covering the stock forecast a 63% climb in 12 months to $236.08. Management increased its dividend by 10% and pays a modest 0.77% dividend.

Good discounts

Methanex and Cargojet are exciting picks for value investors scouting for good discounts. Both stocks have favourable business outlooks and visible growth potential.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:MEOH (Methanex Corporation)
2. TSX:CJT (Cargojet Inc.)
3. TSX:MX (Methanex Corporation)

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