2 Undervalued TSX Stocks to Buy on Dips

Description

A three-decade-high inflation rate, interest rate hikes by central banks, and a heightened risk of a recession are some reasons that has resulted in a recent market selloff. The correction may continue for some time, which could give a better buying opportunity in the deep-value **TSX** stocks I'm about to discuss.

These undervalued stocks are not for the faint of heart, but if they work out, they can be multi-baggers. Interested investors should allocate their positions properly and have an investment horizon of at least three to five years for these names.

Cineplex stock

Cineplex's (TSX:CGX) primary problem was being hit by economic shutdowns during the pandemic. In 2020, compared to in 2019, it lost close to 75% of its revenue! Post-pandemic economic re-openings should drive strong revenue growth. Its trailing-12-month (TTM) revenue of almost $844 million is a double from the 2020 levels but is still less than half of the normalized levels of 2019. So, the company has some ways to go in order to recover.

Not surprisingly, Cineplex generated negative operating cash flows in 2020. As people began returning to watch movies at the theatres, last year, the company swung back to positive operating cash flow generation, which continues to improve this year.

The entertainment company needs to clean up its balance sheet, though, which is currently weighed down by higher levels of debt. Specifically, its long-term debt has increased by $161.8 million (almost 26%) since the end of 2019. Consequently, its long-term debt-to-assets ratio has increased from about 20% to 38%.

Once Cineplex improves its balance sheet, there's a good chance management will reinstate a dividend, but it could take some time, possibly in 2023. Assuming an annualized payout of $1.26 per share (its dividend in 2010), it would be a yield of over 10% at today's stock price of $11.65.

Of course, by the time the company does declare a dividend, which indicates the business has recovered to healthy levels, the stock would trade at much higher levels. Over the next five years, CGX stock could double or even triple. Analysts currently have a 12-month price target of $17.75 for 52% near-term upside potential.

Chorus Aviation stock

Chorus Aviation (TSX:CHR) is another business that was affected by the pandemic. In 2020, its revenues dropped close to 31% versus in 2019. It has been on the recovery path since. Its TTM revenue is about 85% of the normalized levels of 2019.

Like Cineplex, Chorus Aviation eliminated its dividend. On a recovery, it should eventually resume dividend payments, which could be a yield of at least 6% based on today's stock price of $3.72. Its long-term debt is actually lower than it was in 2019. Its debt-to-assets ratio has dropped from 79% to 77%. Its TTM operating cash flow has also recovered to about 72% of its 2019 normalized levels.

Over the next five years, CHR stock could at least double. Analysts currently have a 12-month price target of $5.86 for 58% near-term upside potential.

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