



Market Correction: These 2 Stocks Are Now Severely Undervalued

Description

The stock market correction is already underway. Some experts believe there's more room to drop. Some sectors of the economy are still trading at elevated valuations. Inflation and rising interest rates should bring them down.

While I can't predict market action, I can certainly say that some stocks are looking remarkably attractive despite the economic climate.

Here are the top two beaten-down stocks that are severely [undervalued](#) right now.

Office real estate

Office real estate has had a rough few years. The work-from-home trend pushed the majority of the urban workforce out of cubicles. Unsurprisingly, office landlords and real estate investment trusts (REITs) saw a drop in market value. They have yet to recover.

However, the workforce has started going back to offices while inflation pushes rents higher. This put office landlords in an ideal position. **Slate Office REIT** (TSX:SOT.UN) is an excellent example of this. The stock is up 50% since March 2020, but it's still trading 40% below its pre-pandemic levels.

Meanwhile, the occupancy rate and rental yield at most Slate properties has been robust. This has pushed the dividend yield up to 8.4%. If slate sees further upside in rental yield and asset value, the stock's total return could approach double digits.

Wealthy investor Sime Armoyan recently purchased 1.1 million shares of Slate Office for an average price of \$4.73. Armoyan's Armco Alberta Inc. has several real estate and energy holdings that the family has been accumulating since the 1980s. In other words, sophisticated investors are getting involved in Slate Office.

Financial giant

Investment manager Prem Watsa has lived through several market cycles over his long career. His investment vehicle **Fairfax Financial Holdings** ([TSX:FFH](#)) is built to thrive during downturns.

Fairfax is an insurance company that uses its float to invest in public and private businesses. The portfolio currently includes Bangaluru International Airport in India and Gulf Insurance Company in Kuwait. Altogether, the portfolio is worth US\$50.2 billion.

Fairfax's book value is roughly US\$605 per share, while the stock trades at US\$651. Watsa has started offloading some assets to unlock value. The recent sale of Crum & Forster Pet Insurance Group (C&F Pet) and Pethealth Inc. to JAB Holding Company (JAB) for US\$1.4 billion illustrates how the company's book could have hidden value.

The ongoing downturn also lowers the valuation of potential acquisition targets. Fairfax has plenty of cash on the book to acquire more companies and publicly traded stocks at beaten-down prices this year.

Investors looking for an undervalued stock in the midst of the market correction should add Fairfax to their watch list.

Bottom line

The market correction is already underway and could have more room to run. However, some sectors of the economy were already undervalued. Stocks in these sectors are starting to look attractive for long-term investors. Keep an eye on Slate Office and Fairfax Financial in the months and year ahead.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:RPR.UN (Ravelin Properties REIT)

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