



2 Stocks That Could Be on the Verge of an Upside Correction

Description

Market corrections are something that many Canadian investors fear. It's typically defined as a 10% pullback from peak to trough. Whenever the market gets a tad too excited, or things are discovered to be gloomier than they seem, corrections can occur, and they can be quite rapid destroyers of wealth.

On the flip side, markets can also be too pessimistic and gloomy, especially after a furious plunge on the back of broader macroeconomic woes. Indeed, the TSX Index may or may not be in for such a sharp bounce back. However, many names underneath the hood may be. These intriguing value names that investors may wish to consider picking up before they can correct to the upside. Think severely oversold stocks that were babies thrown out with the bathwater.

In this piece, we'll look at three heavily oversold stocks that I think could be in for a sizeable upside move at some point in the second half of 2022. Consider shares of **Pet Valu Holdings** ([TSX:PET](#)) and **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

Pet Valu Holdings

Pet Valu Holdings is a \$2.2 billion pet supply company that's done a great job of carving out an excellent market share for itself in the niche pet food and supply space. As a direct play on the "humanization of pets" secular trend, it's hard to overlook the mid-cap Canadian company, given its tremendous resilience through most of this pandemic. The firm's strength is in brick and mortar. Though there's a lot of competition in the digital realm, the company has beckoned shoppers in with a wide range of services, including grooming and washing.

Undoubtedly, such services can't be replicated by digital rivals. While Pet Valu is a domestic brand that could be further challenged by international competitors, I continue to be a big fan of management and their ability to maintain their strengths.

The well-run firm generates ample cash flows and trades at a mere 19.2 times trailing earnings. It's not just the strong management or brand that has me pounding the table of the stock. I view Pet Valu as a firm that's recession-resilient. Even as the economy grinds to a halt, pet owners will still need to

get their dogs groomed and washed and ensure they're well fed and entertained. For that reason, PET stock seems like a screaming bargain after falling more than 13%.

Royal Bank of Canada

The big Canadian banks may be dirt cheap after flirting with bear market territory. In terms of quality Canadian banks, it's hard to top the largest of them all in Royal Bank. The company has more than what it takes to weather a coming storm. Further, management will be improving its business, with tech initiatives to fall on better footing on the other side of this economic slowdown.

Reportedly, Royal Bank is looking for tech talent outside the Toronto market. As the firm bolsters its tech capabilities, it will be fascinating to see how it can adapt in an age where fintech savviness will be critical to winning over younger customers.

At 10.8 times trailing earnings, with a 4.1% yield, RY stock seems like a screaming bargain after its 17% slip from peak levels.

CATEGORY

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3. TSX:RY (Royal Bank of Canada)

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