Opportune Time for Investing in Canada: 3 Value Stocks to Buy Now

Description

It is an opportune time to invest in Canadian stocks. The TSX Composite Index is falling gradually into a bear market. All money is pushed towards oil stocks, creating a selloff in good companies with strong balance sheets. Investors are avoiding these companies due to short-term headwinds, but their long-term tailwinds remain intact. Such companies become value stocks.

Opportune time for investing in value stocks

Value investing is about identifying a company with significant future growth potential but it is currently undervalued. Not every stock with a low price-to-earnings (P/E) ratio is a value stock. Value is not quantifying the stock price based on its current sales and earnings but quantifying it on future revenue and earnings per share. Warren Buffett invested in **Goldman Sachs** and **Bank of America** during the 2008 financial crisis, as they were companies with strong fundamentals but stuck in the biggest crisis of the decade.

Three value stocks to buy now

The current market has created an opportunity for value seekers. I have identified three stocks with strong fundamentals but are oversold in the market selloff:

- **RioCan REIT** (TSX:REI.UN)
- **Magna International** (TSX:MG)(NYSE:MGA)
- **goeasy** (TSX:GSY)

RioCan REIT

This retail REIT fell 20% in the 2022 market selloff, even when earnings showed recovery. RioCan slashed distribution by a third during the pandemic, as its occupancy rate fell to 95.8%. However, the retail market is recovering, with grocers and pharmacies making plans for store expansion. RioCan is benefitting from reopening and higher renewal lease spread, as rent is directly proportional to inflation.

Although RioCan's first-quarter earnings show a recovery, its stock price doesn't. This is because investors fear the rising inflation and a looming recession could once again put retail in the fire-fighting mode. This is partly true, as the retail sector is linked to consumer demand, which has begun to decelerate due to increased inflation.

RioCan could witness weak rental income if the recession continues. But it is unlikely to slash distribution yields in time. Now is a good time to lock in a 5.09% distribution yield. The REIT is on the brink of being oversold and could bottom out in the coming days. But its fundamentals remain strong and have a higher chance of recovery as most of its properties are in the Greater Toronto Area. Moreover, it has a well-diversified tenant portfolio. No single tenant accounts for more than 5% rental income and 20% income coming from grocers, pharmacies, and liquor stores.

When RioCan stock recovers, you have a 25% upside potential plus a 5% regular income for a lifetime.

Magna

Magna International is a value stock that could double your money during the recovery rally while giving you a 3.25% dividend yield for a long time. The automotive components and third-party manufacturer's stock fell 43%, as the hip supply shortage stalled the electric vehicle (EV) revolution. The supply issues worsened, as the Russia-Ukraine war increased prices for lithium battery materials. This affected Magna's first-quarter EPS and sales, which fell 40% and 5%, respectively. A 13.8 times P/E ratio might look expensive based on the past four quarters' EPS.

But Magna has $2 billion in cash reserve to keep it liquid in a recession while investing in recovery. The war has shifted the focus on reducing dependence on oil and gas. This means the long-term EV trend is getting stronger. The only thing holding back Magna is supply constraints. When these constraints ease, Magna will get busy with those pending orders, firing all factories in full power. And the stock could make up for the dip.

goeasy stock

Sub-prime lender goeasy stock is closer to being oversold, as the end of fiscal stimulus and growing interest rate pulled the stock down 53%. A recession reduces consumers' purchasing power, encouraging them to take loans. goeasy reported a record first-quarter loan growth of 307%.

Rising interest rates and a slowing economy raise the risk of default. But goeasy has survived the 2009 crisis that has trained it on managing default risk, making it a higher-risk value stock.

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1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)

2. TSX:GSY (goeasy Ltd.)
3. TSX:MG (Magna International Inc.)
4. TSX:REI.UN (RioCan Real Estate Investment Trust)

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