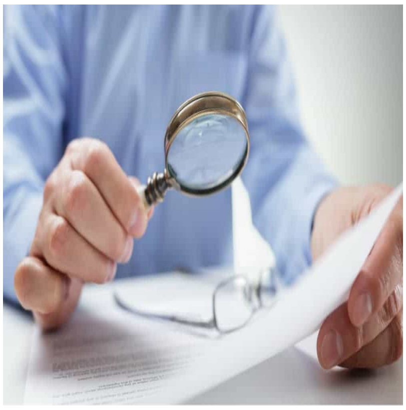

Top 2 Undervalued Stocks for Bargain Hunters

Description

The stock market correction in 2022 has decimated valuations. Stocks that were trading for 50 or 60 times revenue are now down 80%. Meanwhile, reasonably priced stocks with stable income and robust margins *are cheaper than ever.* This is the perfect environment for bargain hunting.

With that in mind, here are the top two undervalued stocks investors should add to their 2022 watch lists.

Undervalued stock #1

Manulife Financial (TSX:MFC)(NYSE:MFC) didn't see much upside in the past two years. In fact, the stock has been flat for roughly five years. Over that period, underlying earnings have expanded at a steady pace.

Now, the stock's price-to-earnings ratio is just 4.7. It's severely undervalued.

Fortunately, investors can expect this value to be unlocked in the form of dividends. Manulife has consistently paid a high yield to patient shareholders. The yield is 6% at the moment. The company's earnings cover this annual dividend by a ratio of 2.66, which means the cash flow is reliable.

Manulife has also expanded these dividends eight times over the past 10 years. This consistent pace of dividend growth could continue, as interest rates rise this year. Rising interest rates are usually good for net margins at financial companies. That's why this stock deserves a spot on your watch list for 2022.

Undervalued stock #2

Pizza Pizza Royalty (TSX:PZA) was on an impressive run in the first quarter of the year, rallying to three-and-a-half-year highs of $14.14 a share. Fast forward to today, the stock has given back a good chunk of these gains. It's now trading at $12.18.

While the stock has underperformed in recent weeks, it is still up by more than 1% for the year outperforming the TSX, which is down by more than 5%. Moreover, Pizza Pizza Royalty continues to hold steady, as the overall market faces headwinds, partly because investors are turning to dividend stocks.

A 6.32% dividend yield continues to excite the market at a time when most companies are struggling to generate significant free cash flow to stay afloat.

Pizza Pizza Royalty stands out, as it does not have to worry about the profitability of individual restaurants. Instead, the company receives a royalty on all total sales. Sales in most restaurants where the company generates some royalties have bounced back after a 16% dip at the height of the pandemic.

The easing of COVID-19 restrictions has triggered the reopening of traditional restaurants and dining spaces, which means sales could rebound strongly. In return, Pizza Pizza Royalties should generate more royalties from the sales. The only risk at the moment is inflationary pressure weighing on consumer spending or resulting in restaurants going offline.

Pizza Pizza is trading at a price-to-earnings multiple of 16. That implies an earnings yield of 6.25%. The deep pullback also presents an opportunity to buy the stock at a discount.

CATEGORY

1. Investing

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1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:MFC (Manulife Financial Corporation)
3. TSX:PZA (Pizza Pizza Royalty Corp.)

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