2 Oversold TSX Stocks That Should Bounce Back

Description

A stock is oversold when it trades below its intrinsic or “true” market value. But the problem is that there are different ways of calculating a stock’s intrinsic value and may offer slightly different results. So, the level at which a stock may be considered oversold can vary based on how you calculate a company’s intrinsic value.

However, this is only a problem when looking at a stock’s fundamentals. Evaluating whether a stock is overbought or oversold becomes relatively easy when you rely on a technical indicator like the Relative Strength Index, or RSI.

It’s a momentum indicator that uses the stock’s price changes (how fast it’s going up or down) to calculate if a stock is overbought or oversold. If the RSI is below 30, it’s in the oversold territory.

And there are two aggressively oversold stocks that may bounce back soon.

A healthcare stock

Bausch Health Companies (TSX:BHC)(NYSE:BHC) is currently seeing its stock *decimated* for the third time in the last two decades. The first time was in 2004, when the stock started trading at a fraction of its 2002 peak valuation.

The second time was in 2016, when the stock fell over 90% from its 2015 peak. And now, the stock has lost over 83% this year alone. This is even harder than the sector-wide fall of about 52% (**TSX Capped Health Care Index**).

The RSI for Bausch Health is currently just under 23 — deep in the oversold territory. And it has hit below 20 three times in the last four months.

Unfortunately, the triggers behind the falls didn't come from outside. A change in leadership usually accompanied by uncertainty regarding the company's future was one trigger. Another one was an adverse ruling on a patent case.

However, if the company can turn things around in the upcoming earnings report, even by a small margin, the stock might stabilize, even if it doesn't start recovering.

The silver lining here is that *if* the stock bounces back in the near future and grows to its current five-year high price (above $41), you may see well over six times returns.

A gold stock

Canadian gold stocks have been slumping for a while now, but few have fallen as far or as hard as **Newmont** (TSX:NGT)(NYSE:NEM), one of the sector's giants. It peaked around mid-April and then started crashing. So far, it has fallen over 45%. The RSI is currently under 19, making it quite aggressively oversold, and the trend isn't showing any signs of recovery.

This U.S.-based giant has one of the largest asset bases in the industry and was *the* largest gold producer in the world in 2020. It has assets in four continents, though the bulk of its production is concentrated in the Americas.

The golden giant is currently trading at a discount, even compared to its pre-pandemic valuation. And since it's overcorrected, the chances of recovery are quite high. And if you buy now, you can also lock in a highly attractive (for a gold stock) 4.8% yield.

Foolish takeaway

The two companies are oversold and quite heavily discounted, but if you are looking for undervalued stocks, the two might not fit the criteria. Out of the two, Bausch is a riskier buy for multiple reasons, including its incredibly high debt. But if it bounces back, the recovery-fueled growth it may offer will also be far more potent than Newmont's.

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Date
2025/06/28
Date Created
2022/08/07
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