Canadian Value Investors: 2 Ridiculously Cheap Stocks

Description

With the **S&P/TSX Composite Index** down 6.4% this year, there are plenty of cheap stocks out there. In fact, you can find many stocks that are down far more than the index. Given weakening economic news, many stocks might get a lot cheaper, too. Here are two extremely undervalued stocks that long-term value investors might want to have their eye on in the back half of 2022.

Suncor: A cheap stock, but not forever

With a market cap of $61 billion, **Suncor Energy** (TSX:SU)(NYSE:SU) is one of the largest integrated energy producers in Canada. Its stock is up 41.3% in 2022. However, it has lagged the **TSX Energy Index** by almost 10 percentage points.

Suncor has been plagued by safety and operational challenges for several years. Consequently, the market has downrated its stock. The good news is that an activist investor called Elliot Management has recently started to shake things up. It is looking to clean up operations and return Suncor to a premium Canadian energy producer.

Regardless, Suncor continues to generate record cash flows. In its second quarter, this cheap stock earned $5.34 billion in adjusted funds from operations. That was up 126% over last year and 33% over the prior quarter. Strong oil sands production, high oil prices, and elevated refining margins/profitability have all helped contribute to strong recent results.

In the second quarter, Suncor bought back $2.6 billion in stock. Since the beginning of 2022, it has bought over 6.1% of its total stock. It also raised its dividend in May by 12% to $0.47 per share (or a 4.23% dividend yield right now).

Its stock is cheap, especially when compared to its larger peers. It trades for five times earnings and 4.3 times free cash flow. For context, **Canadian Natural Resources** trades much higher at 6.7 times earnings and 5.7 times free cash flow.

At $45 per share, Suncor stock is earning a 23% free cash flow yield. If it can successfully turn its operational narrative around, this cheap energy stock could be a real bargain for dividends and total returns ahead.

Hardwoods Distribution: An insanely cheap growth stock

Another TSX stock that looks ridiculously cheap is **Hardwoods Distribution** (TSX:HDI). This stock is not well known, but that is where the opportunity lies. It is a leading distributor of architectural wood products for the building industry in North America.

Hardwoods has a five-year history of compounding revenues and adjusted earnings per share annually by 22% and 38%, respectively. The company has been making smart acquisitions that expand its geographic and product breadth. After two major acquisitions made in the past few years, its business model is diversified and economically resilient.

Last quarter, organic sales grew 23%. Profit per share increased 54.9% to $1.77. By all measures, it is operating very well. However, with interest rates fast rising, the market is concerned about a slowdown in housing starts. Consequently, the stock has fallen 33% this year.

Despite that, there continues to be a major shortage of housing supply across North America. In the long term, this should support growth in HDI's markets. With a price-to-earnings ratio of only 4.9, this stock remains insanely cheap. Even if growth was to temporarily slow, Hardwoods is an incredible bargain here.

The Foolish takeaway

Take a contrarian approach to the market and you can often accelerate long-term returns. You may need to be patient with cheap stocks like Suncor and Hardwoods, but you could be glad you were when you look back in a year or two from now.

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