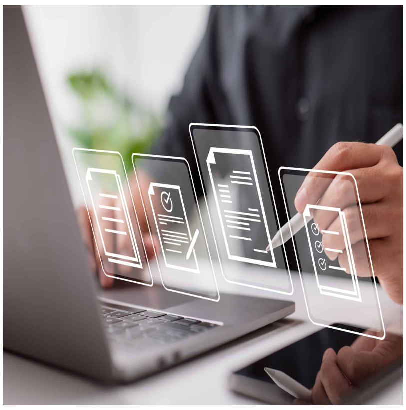

3 Tricks to Finding Undervalued Canadian Stocks

Description

Today's investors are constantly looking for undervalued Canadian stocks. While there are many stocks trading far below where they were earlier in 2022, that doesn't mean they are undervalued.

Today I am going to look at the three top tricks Motley Fool investors can use to find undervalued Canadian stocks.

Company first

Before you even start looking for undervalued Canadian stocks, it's important to find the type of companies you want to invest in in the first place. I would recommend looking for blue-chip companies that you first and foremost *understand*.

There is no point in buying stocks simply because you think you should. Instead, find Canadian stocks that you believe in and believe have a strong future based on information you understand completely. In this vein, I would look at blue-chip companies that have been around for decades, offering dividends and stability based on years and years of growth behind and ahead of them.

A quick tip: You might want to stay away from oil and gas companies right now. Investors looking to invest in blue-chip companies should want to hold them for a decade or more. Over the next decade, Canada and countries around the world have stated outright that they are going to be moving away from oil and gas.

Even the Organization of Petroleum Exporting Countries (OPEC+) has stated that by 2040, there will be a massive reduction in oil and gas use. So while these companies used to be strong blue-chip stocks, I would instead look for different Canadian stocks outside of the oil and gas industry.

Fundamentals second

Now that you have a list of blue-chip companies that you're considering investing in, it's time to look for value. Canadian investors can screen for value in a number of ways. You can look at whether the stock is trading below its 52-week average. You can also look at the price to earnings ratio (P/E), which will tell you if investors are buying up the stock.

Another strong fundamental I would look at is the debt-to-equity ratio (D/E). This will tell you if the company has enough equity to cover all of its debts. A healthy D/E ratio is much harder to find and can be a huge clue to which stocks offer value. Too high a ratio can mean the company is taking on too much financial risk to drive growth whereas too low a ratio can mean the company is not investing enough in future growth. Another is the relative strength index (RSI), indicating whether a company is oversold or overbought, with oversold the ideal scenario.

Ideally, investors should find Canadian stocks with a P/E ratio under 15, a share price under the 52-week average, an RSI under 30 and a D/E ratio under 1 or 100%. If it checks all these boxes, I'd say it's a solid investment.

Future growth third

Now before you go and buy every single blue-chip company that falls into this list of fundamentals, take a breath. The next thing you have to consider is whether these investments offer future growth as well. This is why I flagged oil and gas companies because the future long-term growth probably isn't there. But that's not to say other blue-chip companies won't offer this growth. So now we have come to my recommendation. A stock that checks most of the boxes, or at least is close, and also has a path to growth.

You might be surprised to find my recommendation today is a tech stock. **Open Text** (TSX:OTEX)(NASDAQ:OTEX) is a strong investment that meets practically all screens on the checklist. Shares are down 36% year to date, and it trades at an RSI of 26.9 as of writing. OTEX offers a 3.42% dividend yield, and trades at a fair 19.4 times earnings. Its D/E is 110.9, so just above where it should be, but that should rebound with the stock price.

Bottom line

And that's what to take away here. Open Text stock will certainly recover. The tech stock has partnerships lined up around the corner with major brands offering its cloud storage and cybersecurity. Tech is certainly stable for the future, and Open Text stock has already been around for well over 20 years. So if one Canadian stock is undervalued today, it has to be Open Text.

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1. Investing
2. Tech Stocks

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2. TSX:OTEX (Open Text Corporation)

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