3 Undervalued TSX Stocks You Can Buy at a Screaming Discount

Description

It’s easy to find stocks that have lost 50%–60% of their value this year. But all those massively corrected stocks may not be attractively valued. So, stock picking becomes all the more tedious in such markets. However, valuation will be a key driver that will drive investor returns. Here are three undervalued TSX stocks that could outperform in the medium to long term.

Vermilion Energy

TSX energy stocks have been firing on all cylinders since the pandemic. But after doubling this year, not all of them look undervalued. One that’s appealing in these markets is **Vermilion Energy** (TSX:VET)(NYSE:VET). It has returned 85% this year, notably beating peer TSX stocks. Despite the outperformance, it is currently trading seven times its earnings. This looks way undervalued and indicates massive growth potential.

Vermilion stands out among Canadian energy producers, mainly due to its large European asset base. It derives nearly 30% of its earnings from Europe. High natural gas prices in Europe have substantially boosted its financial performance this year.

To be precise, Canadian natural gas prices averaged around $5/mmBtu (*Metric Million British Thermal Unit*) this year. However, Vermilion’s realized gas prices, due to its Europe exposure, are expected to average around $24/mmbtu. The situation could continue, at least for the next few quarters, placing VET stock in a sweet spot.

Vermilion’s higher production and strong price environment will likely fuel its free cash flow growth. This will likely drive balance sheet strength and aggressive share repurchases, ultimately driving shareholder value.

Toronto-Dominion Bank

Almost all Big Six Canadian bank stocks have corrected 25% since their respective highs in February.

Canada's second-biggest **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) looks relatively appealing after its correction.

Bank names have been weak for the last several months, mainly due to the adamant inflation and aggressive rate hikes. The situation on these macro fronts is expected to remain challenging for the next few months.

So, Canadian bank stocks will likely remain weak. But stocks like TD should outperform due to their relative earnings stability and balance sheet strength. Moreover, its massive presence in the US and robust credit profile differentiate it from peer banks. TD stock currently yields 4.4%, in line with its peers.

TD stock is currently trading at 1.5x its book value per share, close to its historical average. While all bank stocks could re-rate from these levels on recession fears, investors can consider TD to buy in multiple tranches.

Cineplex

Canada's theatre chain company **Cineplex** (TSX:CGX) is at an interesting juncture these days. While the stock has declined 35% this year, few key drivers could send the stock through the roof.

One that's been gradually falling in place is returning demand at its movie screens, driving its revenue growth. Continued revenue growth and strong operations performance could lead Cineplex to sustained profitability in the next few quarters.

Moreover, its weakening balance sheet could flourish if it gets a settlement from Cineworld. Cineplex is expected to receive $1.2 billion from Cineworld after it walked away from a proposed takeover in 2020. The amount is nearly two-thirds of Cineplex's total debt. However, Cineworld's ongoing bankruptcy makes the settlement uncertain.

Assuming CGX receives the amount in full, the stock will then trade at 0.6x its book value—notably undervalued. A quick settlement seems difficult in the short term, but the downside in CGX stock looks limited.

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3. TSX:CGX (Cineplex Inc.)
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Date
2025/06/28
Date Created
2022/10/13
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