3 Top Undervalued TSX Stocks to Buy Right Now

Description

Record-high inflation and rapidly rising interest rates have pulled down TSX stocks this year. The same factors will likely weigh on corporate earnings growth in the next few quarters, making stocks weaker. So, valuation is key to watch for investors in these markets. Here are three such TSX stocks that look appealing from a valuation standpoint.

MEG Energy

MEG Energy (TSX:MEG) stock has returned 70% in 2022. Despite the steep surge, it is trading seven times its earnings and 1.6 times its cash flows. This looks way undervalued compared to peers, indicating handsome growth potential.

MEG Energy stock has been on a solid up move and has returned 900% since the pandemic. Higher oil prices have substantially boosted MEG's free cash flows in the last few quarters. Its net debt has fallen to $2 billion, which is approximately one times its EBITDA (earnings before interest, taxes, depreciation, and amortization). That's a massive balance sheet strength MEG has achieved in this oil rally.

Importantly, MEG has recently accelerated its buyback plan with its excess cash. As a result, we could see significant improvement in its per-share earnings in the second half of 2022. It is expected again to see superior financial growth in third-quarter (Q3) 2022 earnings. Thus, the stock could further gain momentum, backed by crude oil strength and solid quarterly performance.

Toronto-Dominion Bank

Canadian bank stocks have had a weak 2022 so far. The second biggest, **Toronto-Dominion** (TSX:TD) stock has dropped 20% since February this year. It is currently trading 11 times earnings and 1.5 times book value per share. The stock may not bounce back soon, considering the continued rate-hike pressures and worrying growth outlook. However, the downside in TD from its current levels looks limited.

For fiscal Q3 2022, Toronto-Dominion Bank reported a net income of $3.2 billion — a decline of 8% year over year. It also set aside $351 million in provisions for credit losses that weighed on its bottom line. Peer Canadian banks saw higher provisions during the quarter due to their relatively weaker credit profile.

TD Bank has a solid balance sheet with a superior credit profile. It will likely remain resilient compared to peers in case of an economic downturn. Moreover, its stable dividend profile is another plus point with a 4% yield. So, TD will likely continue to create a decent value with stable capital appreciation and a juicy yield.

goeasy

Canada's top consumer lender, **goeasy** (TSX:GSY) is another TSX name that looks attractively valued. It has declined 25% since mid-August and looks poised for a decent recovery.

goeasy caters to non-prime borrowers that traditional lenders do not lend to. It has seen substantial financial growth in the last decade due to strong underwriting and a large addressable market.

Moreover, its expanding product base and geographical presence also play well in its above-average earnings growth. In the last decade, GSY has seen its earnings grow by 30% compounded annually. As a result, the stock returned 2,000% in the same period, notably beating Canadian broader markets.

GSY stock is currently trading at 11 times earnings and 2.3 times its book value. It does not look cheap from the book value perspective, but the price-to-earnings ratio looks attractive. The stock could continue to create shareholder value driven by its solid business strength and healthy earnings-growth potential.

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2. TSX:GSY (goeasy Ltd.)
3. TSX:MEG (MEG Energy Corp.)
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