2 Bargain TSX Stocks Trading Near Their 52-Week Lows

Description

A news trail made investors giddy in optimism before the third-quarter earnings announcements came out. In late October, the Bank of Canada hiked interest rates by 50 basis points, lower than the estimated 75 basis point hike. The stock market saw upward momentum as all beaten-down stocks with bright futures jumped 20–40%. In a month, **Magna International**, **Shopify**, and **Nvidia** stock rose 20%, 25%, and 30%, respectively. Investors who bought these fundamentally strong stocks near their 52-week lows made some quick gains.

Two bargain TSX stocks to buy now

But optimism is fading, and the bears are returning due to weak Q3 earnings. Whether looking for short-term gain or long-term returns, buying stocks at a bargain price can serve you well. But not every stock is a buy at its 52-week low. So choose wisely.

One way to identify good stocks is to play by the TSX's strengths – energy and real estate. I have identified two stocks within these sectors with long-term growth potential. But the short-term headwinds have pulled them down to their 52-week lows.

Algonquin stock

You must have heard of **Algonquin Power & Utilities** (TSX:AQN), the stock that crashed 30% in two days after its earnings release. This renewable energy and utility company took the heat of a weak macroeconomic environment and rising interest expenses. At a time when interest rates are near their 40-year high, investors are likely to be cautious around companies with high leverage. And Algonquin raised $1.2 billion in debt to pay for its upcoming acquisition of Kentucky Power.

This acquisition dates back to October 2021. But the 30% trigger came when Algonquin's management reduced its 2022 guidance and considered revisiting 2023 guidance as the interest rate and inflation eats up its earnings. Moreover, Algonquin has $7.8 billion in debt on its balance sheet, and its $114 million cash reserve is just a drop in the ocean.

The company earns sufficient operating cash flow to maintain its debt and pay dividends. The interest expense increased, putting pressure on its operating cash flow. But this pressure will ease once the interest rate hike slows. Until then, management might preserve its capital by stalling dividend growth in 2023. But the stock could surge once regulated energy prices increase.

Algonquin stock has made a new 52-week low and is trading near its 2015 level as Wall Street analysts downgraded it. While management is revisiting its 2023 targets, its long-term growth strategy remains intact. The next two years could be difficult, but once the upcoming projects come online, you could see some recovery.

SmartCentres REIT

SmartCentres REIT (TSX:SRU.UN) stock price dipped 6% after it reported weak third-quarter earnings, partially offsetting its 12% jump in October. An interest rate hike impacts REITs as mortgages become expensive, negatively impacting demand and property prices. SmartCentres REIT's net income fell $174.6 million to $3.5 million as the fair market value of its investment properties decreased.

The fair market value decreased in the second quarter, but was further impacted in the third quarter, hinting that a recession is now affecting earnings. Investment asset valuation is important for REITs as they take debt against their investment assets. When the asset value decreases, so does their secured debt ratio. But this did not impact SmartCentres rental income, and it has sufficient operating cash flow to service its debt and pay distributions. So far, its payout ratio is 86.6% of operating cash flow, which is sustainable in the short term.

The REIT's stock price will bounce back when the interest rate hike slows, and property prices begin to rise again. For that to happen, inflation has to slow, and disposable income has to increase. SmartCentres' stock price is trading closer to its 52-week low but is still 54% above its pandemic low. The REIT has survived the worst, which means it can survive the recession and bounce back.

Stock investing tip

When earnings are weak, investing in a stock you believe in can be tricky as it might fall further, and you may see some red lines in your portfolio in the short term. But you have to look at the bigger picture.

CATEGORY

1. Dividend Stocks
2. Investing
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TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:SRU.UN (SmartCentres Real Estate Investment Trust)

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pujatayal