2 Fallen TSX Market Darlings That are Beyond Oversold

Description

New Canadian investors should not overthink the trajectory of interest rates or inflation's next move. At the end of the day, everybody is looking to paint a macro picture. Even seasoned economists can't do this perfectly on a consistent basis. That's why investors should pay less focus on macro and more on where they can gain an edge over other market participants.

Indeed, investors can gain an edge by studying individual companies (the so-called micro). That way, you'll be able to gauge how much a company ought to be worth and how it'll fare through a wide range of environments over the long haul.

In short, macro forecasting is a waste of time. Such time is better used in analyzing what matters: the company-specific fundamentals.

In this piece, we'll look at two battered Canadian stocks that I believe are worth the analysis. Both stocks are severely oversold and may have sizeable discounts to their intrinsic value. Indeed, when markets are in panic mode, there are bargains to be had for those willing to put in the homework.

Shopify

Shopify (TSX:SHOP) is a high-tech company that suffered a more than 80% fall. That's excessive to say the least. Yet, few shareholders would have seen such a huge decline coming. Back in 2021, when Shopify stock was at much higher levels, I rang the alarm bell. I called for a steep drop in shares, not due to any company-specific factors. Rather, I thought the valuation got a bit out of hand, as euphoric investors bid up the stock to unprecedented heights.

Now, Shopify is a wonderful growth company. It's one of my favourite Canadian tech firms. That said, the valuation (shares used to trade at more than 50 times price-to-sales) made me cringe. At the end of the day, valuation matters. Now that the stock has been crushed and the company continues to enhance its platform, I think Shopify stock has now fallen to the opposite extreme. Shares look incredibly undervalued compared to its long-term growth potential.

Sure, rates and the macro outlook may be reasons to take a rain cheque. However, I think there's a lot on the table for those willing to be a buyer in spite of the bleak outlook for the economy.

Algonquin Power & Utilities

Algonquin Power & Utilities (TSX:AQN) is another Canadian darling that few thought would crash as violently as it did this year. The green-energy kingpin is now down around 55% from its all-time high. Such a decline in a year is severe. With higher rates, dampened growth prospects, and a swollen dividend yield (currently 9.36%), many investors are wondering if the dividend-growth stud will have to axe its payout. Such a move could induce even more downside in a name that's already reeling.

I think the fear in the stock is palpable. Even if the payout ratio gets stretched to extremes, the pessimism seems overdone. For dip-buyers, this could mean an opportunity to get a lot of bang for your buck. With a low 0.24 beta, AQN stock could be far less volatile than the TSX index moving forward.

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Date
2025/08/14
Date Created
2022/11/28
Author
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