2 Undervalued Stocks to Buy in December 2022

Description

New investors have been left a lump of coal this December 2022, with stocks pulling back violently just days after Fed chairman Jerome Powell's comments sent the S&P 500 roaring past the 4,000 mark. Even if rate hikes are slated to pause (the Bank of Canada hinted at such after its latest rate increase), there's concern that the coming recession could be rockier than anticipated.

Indeed, it's all about how soft or hard the landing will be, as central banks attempt to land in 2023. As young investors, this is our first "real" bear market. It's lasted for around a year and could precede an economic downturn that may take a while to recover from. Undoubtedly, the recovery from the 2020 market plunge was fast and furious. This time around, investors should temper their expectations and be ready for a relatively sluggish pace of recovery.

In this piece, we'll look at two undervalued stocks that I think can do well under their own power, without the need of a soft landing in 2023. We're talking about companies that trade at modest valuations with earnings expectations that may be too conservative.

Consider shares of **Canadian Tire** (TSX:CTC.A) and **Alimentation Couche-Tard** (TSX:ATD), two retail plays that seem likely to outperform in the new year.

Canadian Tire

Canadian Tire is a great brick-and-mortar retail company that's been weighed down by recession woes of late. The financial business in particular could be a drag, as the economy looks to drag its feet further at the hands of more rate hikes. After a nearly 19% year-to-date slump, CTC.A stock trades at 8.79 times trailing price to earnings (P/E), with a 4.64% dividend yield.

Compared to most other retailers, Canadian Tire has a greater mix of discretionary or nice-to-have goods. This puts the firm's retail business in a tough spot, as consumers begin feel the pinch. Thus far, jobs numbers have not rolled over. However, things could change as we enter 2023. We've learned of layoffs and cuts that have spread beyond the tech sector.

In any case, I think Canadian Tire's rock-solid balance sheet and strong managers can help it cope in an environment where consumer behaviour is changing quickly.

Alimentation Couche-Tard

Alimentation Couche-Tard is a convenience retailer with a misunderstood long-term growth strategy. The company's bread and butter is mergers and acquisitions (M&A). The firm knows how to spot value and drive synergies. With a growing cash hoard, Couche has the ability to make a big splash of many small moves in the convenience store space. With a lack of deal-making in 2021, many investors are likely wondering what the firm's plans are, as its liquidity position continues to improve.

Make no mistake. Couche is still an acquisitive company open to bringing on a smaller convenience store chain or grocer. Just don't expect the company to spend money on M&A just because its cash pile is swelling. As the economy slips into recession amid rising rates, expect Couche's strong balance sheet to become that much more valuable. Arguably, the firm should keep waiting until it sees a deal it can't refuse in the depths of the coming economic downturn!

Heading into a recession in a position of financial strength could mean big things for Couche-Tard stock in the new year. Deal or not, Couche-Tard is a great pick-up while it's trading at an absurdly low 16.82 times trailing P/E multiple.

The 0.93%-yielding dividend is also a nice bonus on one of Canada's most interesting growth stories.

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