2 TSX Stocks That Could Heat up for the Holidays

Description

The holiday season has finally arrived, but the so-called Santa Claus rally is nowhere to be found. Undoubtedly, many investors still have hope that the last trading week of the year will close off with some relief. Still, it's worth noting that Santa Claus doesn't come every year. During the bearish back half of 2018, the stock market actually experienced considerable selling activity before the bottom was put in and the Fed propelled markets higher in the New Year.

With cooler-than-expected U.S. inflation data coming in, it seems like the markets have the means to march higher. Still, after the CPI-induced gains were wiped out intraday, investors may be wondering how much market-moving power those monthly inflation data reports still have as investors shift their focus to the looming recession and next season of quarterly earnings results.

Unless you're in it for the next 3–5 years, investors should not look to chase a Santa rally or any relief bounce. Instead, dollar-cost averaging into shares of cheap and wonderful businesses remains a prudent strategy.

In this piece, we'll have a look at two intriguing (and likely undervalued) TSX stocks that I think could really heat up as more data on holiday sales comes flowing in.

Consider shares of **Spin Master** (TSX:TOY) and **Cineplex** (TSX:CGX).

Spin Master

The toymaker is heading into a period of seasonal strength. With a recession potentially in the cards for 2023, expectations for the firm seem modest. The company has beaten on earnings for several straight quarters. In the latest (Q3), Spin Master clocked in EPS of $1.08, just higher than the $1.01 analyst consensus. Clearly, the analyst community set a low bar ahead for the firm to jump, with all the supply-side and macroeconomic pressures.

Though the holiday season of 2022 could be more muted than prior years, given fading consumer sentiment, investors must realize that expectations are already low. Arguably, they're low enough for Spin to impress to the upside, even with macro headwinds considered.

In any case, Spin Master continues to make the most of its strong financial position. Amid the market's bearish slump, the company has made several intriguing acquisitions. The Nordlight deal bolsters the digital games division, while the acquisition of 4D Brands adds another legendary product to the line-up.

Recession or not, Spin Master looks too cheap to pass up at an 8.6 times trailing price-to-earnings (P/E) ratio. As markets continue to slump, expect Spin to continue its acquisition spree.

Cineplex

Many Canadian investors have given up on the Canadian movie-theatre chain. Shares have been in a multi-year slump. With minimal catalysts in sight, it's doubtful the stock will ever be able to regain its former status as a dividend growth juggernaut.

Undoubtedly, the pandemic and continued rise of streaming have weighed on shares of the movie theatre giants. Still, Cineplex is adapting and willing to evolve accordingly by diversifying into other forms of entertainment.

Whether it be Rec Room, Topgolf, or Playdium, Cineplex has many levers it can pull to decrease its dependence on the movie theatre. Undoubtedly, the pandemic derailed investments in non-box-office businesses. As things normalize and Cineplex's balance sheet improves further, I'd look for Cineplex to become more aggressive with the expansion of Rec Room and other entertainment offerings.

At a 0.5 times price-to-sales (P/S), Cineplex trades like a cigar butt. Yes, there are issues, but the worst hailstorm (lockdowns) has already worked its way into the stock. I think it's only up from here, as Cineplex looks to improve the value proposition for moviegoers (via subscription services like Cinepass) going into a period of economic instability.

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