These Overlooked TSX Stocks Could Turbocharge Your Portfolio

Description

Overlooked stocks are often among the best stocks. In investing, you have to do what most others aren't doing. When everybody is already invested in something, that means there's not a whole lot of untapped demand. But with overlooked stocks that have good business fundamentals, there's a decent chance that investors will be more interested in the future than they are today.

In this article, I will explore three overlooked TSX stocks that could turbocharge your portfolio.

Constellation Software

Constellation Software (TSX:CSU) is a Canadian technology stock that is out of favour this year. Since the start of the year, its stock has fallen 7.81%, yet its earnings and revenue have actually increased. In its most recent quarter, CSU's sales grew by 33% and its profit grew by 28%.

Now, of course, interest rates are rising this year, and rising interest rates make future growth less valuable. Nevertheless, companies whose growth is exceeding expectations should still rise, even with interest rates rising. If a company is perfectly priced for 10% growth, and it grows 20%, it should rise whether interest rates are 5% or 10%. High interest rates diminish the value of cash flows, especially fast-growing ones, but they do not change the fact that growth ahead of what was forecast essentially requires a higher stock price. Assuming the stock was priced accurately in the first place, then this holds true.

This year, CSU is beating earnings expectations, and it could continue to do so. The company sells enterprise software to essential government agencies and retail businesses, so it should do better than fad-based tech companies selling toys to consumers.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD) is a Canadian retail and gas station company that not many people know about but is doing fairly well. It has risen more than 1,000% over the last decade. Past results don't predict future results, but there are fundamental reasons to think that ATD could continue thriving in the future. One of those is its acquisition strategy.

ATD spends a lot of money on growing its business, but it doesn't take on a lot of debt to do it. Instead, it re-invests large amounts of retained earnings. This is one of the reasons why ATD's dividend yield is tiny, but it explains why the company managed to grow the Circle K franchise in Canada so quickly and soundly. When you re-invest in your business without leveraging yourself to the hilt, you can do great things.

First National

Turning now to a riskier stock, we have **First National Financial** (TSX:FN). This is a mortgage lending company with a 6.75% dividend yield.

FN has taken a dip this year, falling 16.6% from the start of the year and 32% from the all-time high set in May. As a mortgage lender, FN is vulnerable to weakness in the housing market. If people stop buying houses, then FN won't be able to issue many new mortgages, and revenue will eventually start to decline. The decline in mortgage origination is already occurring, but revenue is rising, thanks to higher interest rates on existing mortgages.

In its most recent quarter, FN delivered $392 million in revenue, up 11%, and $129 million in mortgage value, up 5.7%. Net income declined slightly, and mortgage origination declined a lot (23%), but this company has enough revenue coming in from its existing portfolio that it should be able to ride out the current weakness in housing.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:FN (First National Financial Corporation)

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Date
2025/07/19
Date Created
2022/12/16
Author
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