2 Cheap TSX Stocks to Buy Hand Over Fist, and 1 to Avoid

Description

It's a tough market out there, but new investors need not fret. It's times like these when everybody is fearful that prospective returns are higher and downside risks are lower (at least compared to earlier in the year!).

Undoubtedly, many investors are likely staring at mounting losses in their TFSA retirement funds. Some of this market's most prized blue chips are testing lows not seen since the depths of the 2020 stock market crash. Undoubtedly, it's sickening to even look at one's holdings in this environment.

Looking to the New Year, investors have a few reasons to be hopeful (resilient earnings, falling inflation, and higher employment rates). Regardless, a lot of negativity is already priced into the markets here. Whenever perceived risks are high, some investors will be hesitant to stick with the equity asset class, so compelling bargains tend to be more abundant.

Sure, capital is harder to come by. The days of rock-bottom interest rates are over. And investors seem to be near-sighted, ditching high-growth companies that have nothing to offer on the profitability front over the near term. This distaste for growth, I believe, has made many fallen growth plays very enticing for young millennial investors willing to make the dive.

In this piece, we'll look at two TSX stocks I'd be a buyer of and one to avoid.

Buys: Alimentation Couche-Tard and CP Rail

Alimentation Couche-Tard (TSX:ATD) and **CP Rail** (TSX:CP) have done exceptionally well this year, up 18% and 10%, respectively, year to date. As we enter a recession in the first half of 2023, I expect ATD and CP stocks will continue to move higher under their own power.

Couche-Tard is a convenience store company that's grown by leaps and bounds over the years. Growth is propelled by a perfect combo of M&A and same-store sales initiatives. With more than $10 billion in purchasing power, expect the firm to put its dry powder to use in the near future. Indeed, for a serial acquirer, Couche is overdue for a deal.

As Couche's earnings and valuations continue to hold steady, I think the stock makes a wonderful long-term investment in spite of the macro headwinds. At around 16 times trailing price-to-earnings (P/E), Couche stock is far too cheap to ignore, even with all the bearish chatter on Bay Street.

CP Rail stock trades at a rich 32.8 times P/E. Still, the rail is well-positioned to keep moving a good number of goods in a recession year. With Kansas City Southern assets added to the network, I view CP as a much more powerful railway. As a result, I'd not be afraid to pay a bit of a premium for a company that will play a big role in helping Canada recover from any future economic hurdles.

In short, Couche-Tard and CP Rail are steady blue chips that are capable of delivering returns in what could be another tough year for our TFSAs.

Avoid: IGM Financial

IGM Financial (TSX:IGM) may seem like a compelling high-yield "value" play after falling more than 17% year to date. The wealth management kingpin faces various secular headwinds, as more investors opt to go on investment journeys without paid advisors.

Further, stock-picking and index funds seem to be more attractive than those pricey mutual funds. While IGM has done a fantastic job of adapting to the changing retail investor climate, the sell-off in stocks and gold could further curb demand for "risky" assets. Indeed, many investors may prefer to lose 6-7% to inflation by holding cash than shedding another 50% in stocks.

At 10.1 times trailing P/E, IGM seems a tad expensive, in my opinion. The 5.89% dividend yield is bountiful (and secure), but so too are the yields of other financials. Personally, I'd much rather go for a Canadian bank at this juncture. Many of the big banks trade at single-digit P/E multiples, with yields in the same range as IGM.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ATD (Alimentation Couche-Tard Inc.)
2. TSX:CP (Canadian Pacific Railway)
3. TSX:IGM (IGM Financial Inc.)

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joefrenette