2 “Bargain” TSX Stocks I’m Not Touching—and What I’d Buy Instead

Description

Last year’s bear markets brought many stocks to their knees. Even if some of them are corrected by more than 50%, not all those beaten-down names are smart investment choices. Some TSX stocks fell because of their poor fundamentals and not only because of the broad market pressures. So, here are two such TSX stocks that seem cheap after correction and why it could be risky to bet on these names now. I will also talk about a stock that could be an appealing bet for the long term.

BlackBerry

Canadian tech stock **BlackBerry** (TSX:BB) lost 55% last year but has gained 30% so far in 2023. While BB stock may seem like a bargain after its significant plunge last year, it is still not attractive. That’s because, along with broad market woes, its declining financial growth makes it a fundamentally weak name.

BlackBerry has seen declining revenue growth for the last few years. In the last 12 months, its revenues came in at US$690 million — a decline of 4% compared to the fiscal year that ended on February 2022. While it operates in emerging areas like IoT (Internet of Things) and cybersecurity, BlackBerry has yet to see handsome financial growth.

Its margin erosion in the cybersecurity vertical and a bleak growth outlook for IoT due to a slowdown in the auto market has dented investor sentiment. Although BB could dominate in these areas in the long term, the stock does not offer a favourable risk/reward proposition today.

Algonquin Power & Utilities

As interest expenses zoomed and pulled its bottom line notably down in the third quarter last year, **Algonquin Power** (TSX:AQN) lowered its guidance and trimmed dividends by 40% for 2023. The stock has fallen 35% since November 2022.

AQN stock is currently trading 17 times its earnings, while TSX utility peers are close to 20. So, AQN looks relatively discounted. However, many uncertainties make it a risky name for a utility.

Higher-than-expected interest rate hikes in 2023 could raise its interest expenses, further denting its bottom line. Another dividend cut is a remote possibility but could significantly weigh on the stock.

As a utility investor, I would rather look for more stability and a stock that has overcome many bear markets and business cycles. There are many such companies in the Canadian utility space. For a mere cheaper valuation, AQN still is not an appealing stock.

Canadian Natural Resources

The Canadian oil and gas space seems poised to grow after its brief hiatus in the last few months. In my view, Canada's largest **Canadian Natural Resources** (TSX:CNQ) is an attractive bet, both fundamentally and from a valuation perspective.

Expected higher oil prices in 2023 and deleveraging efforts since the pandemic will likely improve its profitability and shareholder returns.

CNQ is currently trading at a free cash flow yield of 12%, which is lower than its peers. It is not one of the undervalued names in the Canadian energy space, but its stable dividends and buybacks in 2023 could create considerable shareholder value.

CATEGORY

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2. TSX:BB (BlackBerry)
3. TSX:CNQ (Canadian Natural Resources Limited)

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