3 Undervalued TSX Stocks That Should Be on Your Radar

Description

Undervaluation, especially when accompanied by a healthy price discount, is a very attractive feature in a stock. But a discount-first approach to selecting securities can backfire. You have to consider the factors behind the undervaluation before making an investment decision.

If these valuation drivers are rooted in the company itself and its problems (financial, management, reputation, etc.), further analysis is usually a smart thing to do before you consider buying the stock. But if a stock is undervalued because of market or sector-wide dynamics, it may indicate a strong chance of recovery-fueled growth, as the stock naturally reverts to its intrinsic fair value.

With that in mind, there are three undervalued stocks you should keep an eye on.

An airline stock

Air travel became a very unprofitable business during COVID, but only if you transported humans. Cargo airlines didn't suffer nearly as badly, but Mississauga-based **Cargojet** (TSX:CJT) still went through a brutal correction phase that it has just begun to break out of. It's still trading at a 47% discount, which, in addition to its healthy financials, accounts for its attractive valuation.

The company is trading for a price-to-earnings ratio of just 7.86, but that's not the only reason you should keep a close eye on the company (or consider buying it right now). The stock had a stellar growth history in the last long-term bullish market — between the Great Recession and the 2020 crash. It's also a leader in its domain — i.e., time-sensitive cargo. It has a sizable fleet and is growing its footprint globally as well.

All these factors indicate a healthy company and stock that may experience a powerful resurgence when the market is stable enough for a long bullish phase.

A high-yield dividend stock

Unless you actively avoid small-cap stocks, **PRO REIT** (TSX:PRV.UN) should be on your radar for two reasons: dividends and its valuation. The company is trading for a price-to-earnings ratio of just 2.7 and a 14% discount from its last peak. This makes it attractive to most value investors, especially if they buy it for its dividends, because it hasn't shown any significant promise regarding capital appreciation.

However, it's a powerful pick for dividends. It's currently offering a juicy yield of 7%, which is enough to generate $100 a month passive income with a capital of $17,200. The dividends are backed by a rock-solid payout ratio of about 19.1%, and its financials are quite promising. This shows that the dividends are not just promising but also highly sustainable.

A tech stock

Coveo Solutions (TSX:CVO) is a relatively new stock and has already been through a lot. At its worst, the stock fell by about 69% from its price at the inception (in fewer than eight months). The stock is recovering and growing at a powerful pace, but the valuation is still stuck at the discounted level.

With a price-to-earnings ratio of just two, it's one of the most undervalued stocks in the tech sector. The stock was one of many that were unjustly punished by a weak sector, and it's now being rewarded for the sector's recovery.

It offers artificial intelligence (AI) powered e-commerce solutions, combining one of the avenues where big money is moving now (AI) with a relatively mature tech segment that has yet to reach its full potential (e-commerce).

Foolish takeaway

All three stocks are worth considering right now — one for their dividends and the other two for their growth potential (at least short term). But even if you are not buying now, you should keep an eye on them and see how they react to the market, especially if a recession hits.

CATEGORY

1. Investing

TICKERS GLOBAL

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2. TSX:CVO (Coveo Solutions)
3. TSX:PRV.UN (Pro Real Estate Investment Trust)

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