3 Top Turnaround Stocks for 2014

Description

Let me give it to you straight: With equity markets nearing all-time highs, you're unlikely to find a wonderful business at a reasonable price.

So what should investors do in this environment? Sometimes the best opportunities come from identifying companies that are trading at cheap prices because something is wrong.

Maybe management isn't looking out for investors. Or perhaps past decisions have left the company in tatters. As a general rule these businesses should be avoided.

But in the presence of a shareholder activist or new management team, a lot of value can be unlocked for investors through spin-offs, asset sales, or share buybacks. And with equity prices looking a little lofty, these turnaround stocks might be the last good deals in the marketplace.

Like gold? Then you'll love this stock
It has been a tough go for Canada's largest gold miner. With a year-to-date decline of almost 50%, **Barrick** (TSX:ABX, NYSE:ABX) trades below where it did a decade ago when gold was below US$450 per ounce, versus US$1,200 per ounce today.

Over the past ten years, the firm has squandered billions of dollars on poorly timed acquisitions and over-budget mining projects. And what does Barrick have to show for this effort? The company is now saddled with $15 billion in debt and hasn't made any material gains in gold production per share.

But we're starting to see some shareholder friendly initiatives. Barrick founder and chairman Peter Munk, the quarterback on this failed expansion drive, announced his resignation this fall. The company has also appointed new independent board members. And plans to cut spending should be a big boost to the bottom line.

However, plenty of work is left to be done. According to recent estimates from Barron's, the stock could be worth as much as $35 per share if management were to spin off its high cost mining operations and return more capital to shareholders.

The only natural gas stock to buy now

Encana (TSX:ECA, NYSE:ECA) is another example of a company that has cost shareholders dearly because of poor management decisions. After spinning off its oil business, the firm was poorly positioned for the plunge in natural gas prices. And unable to admit their mistake, executives continued to plough billions of dollars into low returning gas projects.

But Encana is now under a new management team that is not tied to past decisions. As part of his turnaround strategy, Chief Executive Doug Suttles has pledged to sell off low retuning assets, shift to a more profitable production mix, cut costs, and pare down debt.

The company has lots of catalysts in 2014. This summer Encana expects to spin off about five million acres of its mineral fee title land. The new company will lease the properties out to junior exploration companies in exchange for a steady stream of royalty payments. This is an unrecognized assets on the company's books which is finally being put to good use.

And Encana has lots good fundamentals that could drive its share price beyond this year. The company plans to plough most of its investment dollars into five liquids rich plays including the Montney, the Duvernay, the DJ Basin, the San Juan, and the Tuscaloosa Marine Shale. Based on current commodity prices, this should grow cash flows by 10% annually through 2017.

Why Warren Buffett is buying this oil sands stock

Under former Chief Executive Rick George, **Suncor** (TSX:SU, NYSE:SU) became one of the largest companies in Canada, thanks to aggressive expansions and bold acquisitions. But rising costs and weak bitumen prices means that the oil sands are a less attractive place for new investment. Taking the pressure off the growth pedal could be in the best interests of shareholders.

And that's exactly what new Chief Executive Steve Williams plans to do. Since taking the helm just over a year ago, Williams has abandoned his predecessor's growth targets, scrapped the Voyageur upgrader, doubled the dividend, and pledged to buy back 10% of outstanding shares.

But while the company has made considerable progress, Suncor still has the lowest return on capital employed of its peers. This suggests more work is left to be done, which could unlock additional value for shareholders. Warren Buffett's endorsement last summer also speaks to the company's prospects in 2014.

Foolish bottom line

Generally 'cheap' stock should be avoided. In investing, you get what you pay for and it's almost always worth paying up for best of breed.

But the stocks above all have identified problems which can be simply remedied. With shareholder activists or new management teams pushing for change, the needed adjustments are likely to be carried out. And with the stock market nearing an all-time highs, these might be your best bets for 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)

2. TSX:SU (Suncor Energy Inc.)

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