Do These 3 Out-of-Favour Stocks Have 100% Upside?

Description

Everybody has heard the old axiom “buy low and sell high.” It’s practically a cliche at this point.

Then why is it so hard to do?

Essentially, psychology gets in the way. We know that we should be poking around stocks that have fallen, looking for the diamonds in the rough. But it’s so much easier to go check out the high-flyers, which are seemingly firing on all cylinders. Besides, those popular stocks are safe choices. Nobody ever gets criticized for buying the same stocks as everyone else.

Yet, ironically, investors who play it safe may be choosing some of the riskiest investments of all. By investing heavily in the latest growth story, investors are often betting on perfection, since those types of companies tend to get hammered if they take one minor misstep.

If you compare that to these three companies, the difference is night and day. These companies have shareholders there for the long haul, already frustrated with the lack of performance. They aren’t about to sell based on one bad news report. Plus, perhaps most importantly, these companies are cheap. If you combine unloved and cheap with solid assets, a company will most likely recover.

1. Penn West Petroleum

If you’re looking for an unloved company, **Penn West Petroleum** (TSX: PWT)(NYSE: PWE) is a great place to start. Its share price has seen a steady decline for years, finally culminating with a dividend cut in 2013. Currently, its shares trade for $9.37, which isn’t far above the all-time low.

One of the company’s main problems was management. It constantly overpromised and underdelivered. The board realized it had a problem, so it cleaned house and hired a new group of respected individuals with decades of experience. So far, it seems to be working.

Cutting the dividend was an unpopular move, but it was needed since the company wasn’t earning enough to cover it. Now the company easily makes enough to cover its new 5.9% dividend and is in the midst of selling non-core assets in an attempt to shore up its balance sheet. The debt level of $2.2

billion is a little high, but has improved from $2.9 billion over the last year.

Once the new group of management proves its worth, look for shares to start steadily improving. They could easily double over three or four years.

2. TransAlta

Shares in **TransAlta** (TSX: TA)(NYSE: TAC) have been terrible performers of late, thanks to weak power prices, unscheduled maintenance, and a general lack of investor love for the company's main assets — coal-fired power plants. Like Penn West, the company cut its dividend after struggling for years.

However, there are a few silver linings. After the dividend cut earlier this year, management plunked down cash to buy shares, which is always a bullish sign. Its shares are trading just slightly above book value, which is the lowest they've been for years, at least from that perspective. Also, the company has reiterated that its new dividend is safe, meaning investors are getting paid 5.7% to wait for a recovery.

Its shares currently trade at a 10-year low. We need power just as much now as we will in the future. Take a chance to buy this beaten-up power generator, and you'll be happy in a few years.

3. Bombardier

Sometimes, when companies embark on huge projects and then inevitably stumble halfway through, the market punishes them. **Bombardier** (TSX: BBD.B) is in the middle of one of those punishments right now.

The reason? It's been plagued with delays to its much-anticipated CSeries line of business jets, which were originally scheduled to be delivered in the second half of 2014. That was pushed back to 2015, and a problem discovered during engine testing may push back deliveries even further.

Still, customers are supporting the company. It didn't take a sample plane to the Farnborough Air Show, but still received orders. Based on its current backlog, it has enough planes on order to keep workers busy until 2018. Once it starts to deliver planes, more customers should start to jump on board, which should help lift the stock. Earnings should easily double, which, in turn, could double the stock price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:BBD.B (Bombardier)
3. TSX:TA (TransAlta Corporation)

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