These 3 Stocks May Look Cheap, But They're Still Expensive

Description

"Be fearful when others are greedy, and be greedy when others are fearful."

This phrase is commonly heard from successful investors, and often has some merit. Investors tend to overreact to short-term events, causing a stock price to fall more than it should. When that happens, astute investors can then buy a quality stock for a nice discount. Over time, this strategy can lead to strong performance without any increased risk.

But the key phrase here is "short term." If a company is legitimately struggling and facing a real threat to its business model, investors too often don't react strongly enough. After all, these stocks start to look cheap as their price declines, which tends to draw plenty of bargain hunters. Meanwhile, existing shareholders don't sell out quickly enough, not wanting to admit a mistake. As a result, these stocks tend to be overvalued.

So, if you want to be contrarian, that's great. But you should focus on unpopular stocks, or stocks that are facing short-term headwinds. As for companies that are actually struggling, their stocks tend to be overvalued. Below are three examples.

1. Teck Resources

Diversified miner **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) must look like a bargain to a lot of investors right now. The stock traded for more than $60 back in 2011, but has since fallen into the mid-teens.

The main cause of Teck's decline has been the falling price of metallurgical coal. The commodity once traded for roughly US$300 per tonne, but has since slipped to below US$100. Consequently, a good chunk of producers are losing money. This points to a possible rebound in prices, something that may draw some bargain hunters to Teck.

But make no mistake: Teck is still expensive. Chinese steel production is expected to peak this year or next, meaning the met coal market will be oversupplied for a while. And if the Chinese economy suffers a hard landing, Teck's fortunes will be even worse. This stock has a lot further to fall.

2. Bombardier

Like Teck, **Bombardier Inc.** (TSX:BBD.B) has fallen on hard times. Its problems can mainly be traced to the CSeries, which has suffered two years' worth of delays, and is US$2 billion over budget.

Also like Teck, bargain hunters may be drawn to Bombardier. The stock may look cheap, and the first CSeries model is nearing certification. But once again, there's a lot more room for the stock to fall.

This is because Bombardier is having trouble selling the CSeries. Larger rivals like Airbus are discounting their planes heavily, and plunging oil prices diminish the CSeries' fuel efficiency advantage. Tellingly, the plane hasn't secured any firm order since September, when oil prices were last above US$95.

Making matters worse, Bombardier has a big debt load. So, if the CSeries orders don't pick up, this stock could get a lot cheaper.

3. Westport Innovations

Westport Innovations Inc. (TSX:WPT)(NASDAQ:WPRT), a provider of natural gas engine technology, has also fallen on hard times. The company was once a high-flier, but declining sales growth and plunging oil prices have hammered the stock price. Just by looking at a chart, Westport looks like a bargain at this price.

But yet again, Westport remains expensive. The company trades at about three times revenue, a steep price for a company with declining sales and zero profitability. If oil prices don't recover quickly, then the news could get even worse. Your best bet is to look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:BBD.B (Bombardier)
4. TSX:TECK.B (Teck Resources Limited)

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