



2 Stocks Under \$3 That Could Rise Over 65% in the Next 18 Months

Description

Amateur investors think that stocks trading under \$3 are bargains, but Foolish investors know that this is not the case. Oftentimes, a stock falls below \$3 because of a weak financial performance by the company, because it has flooded the market with too many of its shares, or because of legal or accounting issues.

To find a true bargain under \$3, you need to look for companies that remain profitable and whose stock trades at inexpensive valuations compared with their five-year averages. I have scoured the market and found two stocks from two different industries that meet these criteria, so let's take a look at each companies' first-quarter earnings results and their stocks' valuations to determine if you should speculate on one of them today.

1. Western Forest Products Inc.

Western Forest Products Inc. ([TSX:WEF](#)) is one of the largest manufacturers of high-quality wood products in Canada.

In the first quarter of fiscal 2015 its net income from continuing operations decreased 21.6% to \$18.5 million, its earnings per share from continuing operations decreased 16.7% to \$0.05, and its revenue increased 1.1% to \$248.6 million compared with the year-ago period.

At today's levels, Western Forest's stock trades at 11.5 times fiscal 2015's estimated earnings per share of \$0.19 and seven times fiscal 2016's estimated earnings per share of \$0.31, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 15 and the industry average multiple of 19.

I think the company's stock could consistently trade at a fair multiple of at least 15, which would place its shares around \$2.85 by the conclusion of fiscal 2015 and around \$4.65 by the conclusion of fiscal 2016, representing upside of more than 30% and 113%, respectively, from current levels.

In addition, Western Forest pays a quarterly dividend of \$0.02 per share, or \$0.08 per share annually, giving its stock a 3.7% yield at today's levels.

2. Lake Shore Gold Corp.

Lake Shore Gold Corp. (TSX:LSG) is a gold producer with operations in the Timmins West and Bell Creek mines in Ontario, Canada.

In the first quarter of fiscal 2015, its net income increased 163.1% to \$12.07 million, its earnings per share increased 200% to \$0.03, and its revenue increased 28.7% to \$79.12 million compared with the year-ago period.

At current levels, Lake Shore's stock trades at 19.8 times fiscal 2015's estimated earnings per share of \$0.06 and 14.9 times fiscal 2016's estimated earnings per share of \$0.08, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 1,719.7 and the industry average multiple of 21.3.

I think the company's stock could consistently command a fair multiple of at least 25, which would place its shares around \$1.50 by the conclusion of fiscal 2015 and around \$2.00 by the conclusion of fiscal 2016, representing upside of more than 26% and 68%, respectively, from today's levels.

Would your portfolio benefit from a little speculation?

Western Forest Products and Lake Shore Gold are two of the top stocks trading under \$3 in the market today. If your portfolio could use a speculative stock, take a closer look and strongly consider buying one of them.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WEF (Western Forest Products Inc.)

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