



2 Profitable Stocks Under \$4 You Could Speculate on Today

Description

Many investors think that stocks trading under \$4 are bargains, but this is really not the case. Oftentimes, a stock falls into the low single-digits 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.

One way to find a true bargain is to look for companies that remain profitable and whose stocks trade at inexpensive forward valuations compared with both their five-year and industry averages. This can be a very difficult task, but to make things easier for you, I have scoured the market and found two stocks that meet these criteria, so let's take a closer look at each companies' first-quarter earnings results, their stocks' valuations, and some projected returns, so you can decide if you should speculate on one of them today.

1. Street Capital Group Inc.

Street Capital Group Inc. (TSX:SCB) is one of the largest non-bank lenders in Canada.

In the first quarter of fiscal 2015, its net income from continuing operations decreased 45.9% to \$3.47 million, its earnings per share from continuing operations decreased 42.9% to \$0.04, and its revenue increased 7.7% to \$32.13 million compared with the year-ago period.

At today's levels, Street Capital's stock trades at 9.6 times fiscal 2015's estimated earnings per share of \$0.22 and 9.2 times fiscal 2016's estimated earnings per share of \$0.23, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 11.5 and the industry average multiple of 61.9.

I think the company's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of \$2.60 by the conclusion of fiscal 2015 and upwards of \$2.75 by the conclusion of fiscal 2016, representing upside of more than 23% and 30%, respectively, from current levels.

2. Tree Island Steel Ltd.

Tree Island Steel Ltd. ([TSX:TSL](#)) is one of North America's largest producers of premium steel wire and wire products.

In the first quarter of fiscal 2015 its net income increased 486.4% to \$2.12 million, its earnings per share increased 600% to \$0.07, and its revenue increased 28.6% to \$59.04 million compared with the year-ago period.

At current levels, Tree Island's stock trades at 11.3 times fiscal 2015's estimated earnings per share of \$0.28 and 8.5 times fiscal 2016's estimated earnings per share of \$0.37, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 20.0 and the industry average multiple of 23.5.

I think the company's stock could consistently trade at a fair multiple of at least 15, which would place its shares around \$4.20 by the conclusion of fiscal 2015 and upwards of \$5.50 by the conclusion of fiscal 2016, representing upside of more than 33% and 74%, respectively, from today's levels.

Should you add a speculative stock to your portfolio?

Street Capital Group and Tree Island Steel are two of the most attractive speculative plays in the market today. Foolish investors should strongly consider beginning to scale in to positions in one or both of them today.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date

2025/08/04

Date Created

2015/07/20

Author

jsolitro

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