



4 Turnaround Opportunities for Outsized Gains

Description

I'm introducing four stocks that will likely give you short-term pain but long-term gains. Just to be clear, these stocks have above-average volatility and are not for every kind of Foolish investor.

However, there's potential for above-average gains in the long term, and the minimum holding period is expected to be three to five years. If you're ready, here is a list of turnaround opportunities for you to explore.

Dominion Diamond Corp. (TSX:DDC)(NYSE:DDC) is 29% below its 52-week high of \$24. At under \$17 per share, it yields 2.9% with a payout ratio around 60%.

It is the only major diamond producer operating exclusively in Canada. It owns close to 89% of the Ekati Diamond Mine and 40% of the Diavik Diamond Mine.

It only had negative earnings once in the past 10 years, and its debt-to-cap is only 2%. So, there's a slim chance that it would default.

The book value is the value of assets shareholders would theoretically receive if the company were liquidated. Currently, it has a price-to-book ratio (P/B) of 0.8, the cheapest it has been since it hit a P/B of 0.4 in 2008.

Its growth is expected to come from its projects, including Misera Main, which is coming into production in the first quarter of 2016, and the Jay Project, which is planned to come online in 2020.

With anticipated above-average growth post-2015, there's plenty of time to pick up some shares before Dominion Diamond is expected to soar from all the growth.

Teck Resources Ltd. (TSX:TCK.B)(NYSE:TCK) is a diversified miner that has operations in Canada, the United States, and Chile. Most of its revenue comes from coal, copper, zinc, and lead. Those commodities haven't been doing well in the past few years, and saying Teck hasn't done well is an understatement.

After declining in price for a few years, Teck is now priced at a P/B of 0.3, which is as cheap as it was in 2008 during the Financial Crisis.

So, at close to \$8 a share, Teck Resources is really cheap. When related commodity prices pick up again, Teck could trade at a P/B of 2.0 or greater, like it did for five years in the last 10. Even if it only trades at a P/B of 1.0 again, implying a price of about \$32, this still implies upside of 280%, excluding dividends. The reward particularly outweighs risk for this miner.

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is the safest way to gain exposure to precious metals while leveraging on rising gold and silver prices.

Silver Wheaton is the world's largest silver streaming company and it pays a dividend of 1.5% currently versus gold or silver bullion, or the precious metal exchange-traded funds **iShares Silver Trust** and **SPDR Gold Trust**, which pay no dividend.

Eldorado Gold Corp. ([TSX:ELD](#))([NYSE:EGO](#)) is a low-cost gold producer, so it fares better in the low gold-price environment. The stock is priced at a price-to-book of 0.6 right now, which is the cheapest it has been in the last 10 years.

Its debt-to-cap is only 10%, so it has a higher chance of survival than other miners that have higher debt levels. When gold prices rise, you can bet Eldorado will be going up with it.

In conclusion

For most of these opportunities, I'd personally hold them in a non-registered or taxable account in case any write-off is needed. Further, they will only make up a small part of my diversified portfolio because most are categorized as high risk, but with expected high reward.

Foolish investors should only consider buying them when they have significant margin of safety from fair value. Teck Resources, Silver Wheaton, and Eldorado Gold all seem cheap compared with historical levels.

As for Dominion Diamond, I'd wait till closer to the end of the year before considering it. I expect it to be at least \$2 cheaper.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:EGO (Eldorado Gold Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:ELD (Eldorado Gold Corporation)

4. TSX:TECK.B (Teck Resources Limited)
5. TSX:WPM (Wheaton Precious Metals Corp.)

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