Contrarian Investors: Could These Stocks Double in 2016?

Description

Contrarian investors like to buy when everyone else hates a stock. The strategy can be risky because cheap stocks often become a lot cheaper, but when you get it right, the long-term rewards can be significant.

Here's why **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Encana Corporation** (TSX:ECA)(NYSE:ECA) could surge next year.

Barrick

Barrick's management team is on the cusp of pulling off a year that few analysts believed would be possible.

In early 2015 the company pledged to reduce its massive US$13 billion in debt by US$3 billion before the end of the year. With gold prices under pressure, pundits were skeptical that the company would be able to sell enough assets to hit the mark.

Barrick will not only meet the target, but it could potentially exceed it. The success is the result of a series of assets sales, partnerships, and streaming deals that have totaled US$3.2 billion.

The company is also doing a good job of driving down admin and operating expenses.

Head office staff positions have been halved and the company expects to find US$2 billion in cash flow improvements by the end of 2016. All-in sustaining costs are now among the lowest in the industry at US$771 per ounce.

Barrick delivered Q3 2015 free cash flow of US$256 million and adjusted net earnings of US$131 million, which is pretty good considering the tough conditions in the market.

Gold prices remain under pressure, and that situation could continue through next year. However, if the bullion market catches a nice tailwind, Barrick's shares could rocket higher. The company produces more than six million ounces of gold per year, so a US$200 bounce in the price of gold could add US$1.2 billion in cash to the coffers.

Encana

Encana's shareholders are wondering if the pain will ever end. The stock is down 60% in 2015 and still hitting new lows as the energy sector limps into the dying days of the year.

Most names in the energy patch have had a rough year, but Encana has been hit especially hard because it loaded up on debt to make expensive oil buys just before the bottom fell out of the market.

Since then, the company has been in crisis mode, issuing stock and selling off natural gas assets to get the debt down to a manageable level.

As with Barrick, the management team at Encana has done a good job in a tough environment. Corporate expenses are down by US$300 million, and the company plans to reduce the debt position by US$2.8 billion using the proceeds from a series of asset sales. Encana started 2015 with long-term debt of US$7.8 billion.

At current oil and gas prices, the outlook still isn't very good, and that's why the stock is now down to $6.50 per share, but any surge in energy prices could light a fire under Encana's stock price because the market has all but given up on the company.

Could Encana be taken out?

Encana owns an impressive portfolio of top quality assets. If you assume the company will finish the year with about US$5 billion in long-term debt and then add in the current market value of about US$4 billion, plus another US$2 billion for a takeover premium, you get a potential takeout price of just US$11 billion.

That's a lot of money, but it is possible for any of the big players who still have strong balance sheets and are willing to sit on the assets until energy prices improve.

The latest leg of the selloff could start to bring in suitors, and talk of a potential takeover would drive the stock higher.

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aswalker