



## 3 Stocks That Have Massive Turnaround Potential

### Description

Some of the biggest return opportunities can be found by purchasing stocks after a correction or an extended period of declining prices. For example, the 1987 crash saw a 20% gain in the year and a half after the crash. Crashes in 2001 and 2008 saw similar or greater gains.

With the TSX plunging for 10 months—at one point nearly wiping out a decade of returns—many are predicting that a rally is in order. This is especially true because oil is trading around US\$30 per barrel, a level that isn't sustainable because it doesn't encourage enough new supply to meet demand growth.

In this environment, some of the best opportunities can be found in stocks that are in the middle of cost and strategic turnarounds. Names such as **Air Canada** ([TSX:AC](#))(TSX:AC.B), **Bombardier, Inc.** ([TSX:BBD.B](#)), and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) could be set to benefit from both improving market conditions as well as improving fundamentals if the transformations are successful.

#### 1. Bombardier is a high-risk, high-reward turnaround opportunity.

Bombardier is by far the highest-risk opportunity of the three companies listed, but the upside potential could be huge if the company is able to successfully execute its transformation. Bombardier has struggled with liquidity issues, cost overruns, delays, and a lack of firm orders for its CSeries jets.

In November, however, Bombardier released a five-year plan called their “Roadmap to 2020.” The plan outlines the businesses plan to de-risk the business then rebuild cash flow and earnings. Currently, Bombardier has made major steps in the first part of the plan, which is to rebuild the business.

One reason for Bombardier's lack of CSeries orders is the fact that airlines are not sure if the company will be around long enough to support the product. This problem looks to be resolved for now, thanks to a \$1.5 billion investment by the Quebec pension board and another \$1 billion from the Quebec government.

In total, this gives Bombardier \$6 billion of liquidity. This buys Bombardier time, and if Bombardier can

succeed in its turnaround, the upside for the stock can be large.

## **2. Air Canada is also in the middle of a cost transformation**

Air Canada was in major trouble only a few years ago. In 2013 shares hit \$2 per share, and since then, thanks to the current CEO's successful turnaround efforts, shares are around \$7. The transformation of Air Canada is far from complete, however, which means there is still significant upside available.

Previously, Air Canada struggled with costs and debt issues, labour issues, and a massive pension shortfall. Today Air Canada's pension plan is secure, the company has reduced its leverage ratio from 3.4 in 2012 to 2.5, and it has an ambitious goal of reducing costs by 21% 2018 (which it is on track to do).

These cost reductions are made possible by new flexible labour agreements the company has signed, and over the past 18 months Air Canada has reached seven deals with its unions. If the cost reductions are successful, Air Canada shares could grow significantly and trade at a similar valuation to its peers (which would mean a huge upside).

Management plans on driving revenue growth and reducing costs in 2016 by adding capacity on high-demand international routes and with lower-cost aircraft, which should help the company in its transformation plan.

## **3. Crescent Point will benefit from an oil recovery**

Crescent Point Energy stock is also set to make a turnaround, but this turnaround is largely due to a recovery in oil prices. Crescent Point remains one of the best ways to play an oil recovery because it drills in some of the most economic plays in North America (like the Saskatchewan Bakken).

Crescent Point has been aggressively reducing costs; it has reduced costs to drill and complete a well from \$2 million in 2014 to \$1.3 million this year, meaning Crescent Point can produce more for less capital. Should oil prices rise, Crescent Point shares will grow substantially as investors flock to the stock because it's considered a best-in-class name due to its high-quality asset base and strong operational track record.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:VRN (Veren)
2. TSX:AC (Air Canada)
3. TSX:BBD.B (Bombardier)
4. TSX:VRN (Veren Inc.)

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