3 Contrarian Stocks for Substantial Gains

Description

Contrarian investors should take a look at out-of-favour stocks, such as **Concordia Healthcare Corp.** (TSX:CXR)(NASDAQ:CXRX), **General Motors Company** (TSX:GMM.U)(NYSE:GM), and **Linamar Corporation** (TSX:LNR), for substantial gains due to their cheap valuations and the potential for their prices to revert back to their normal multiples.

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Concordia Healthcare

Concordia is about 60% below its 52-week high. At under $44, it's priced at about 6.7 times its earnings, which is dirt cheap for a company that is growing at a double-digit rate.

Although Concordia pays a dividend, it only yields 1%, so investors should expect most of its gains to come from price appreciation. Assuming Concordia expands to a conservative multiple of 13, it should trade at about $85, implying over 90% of upside from current levels.

Concordia has a presence in over 100 countries. This year it expects to generate about 40% of revenue from the United States and 60% from other countries. It has a diversified portfolio of products, and none account for more than 10% of its revenue. In the next three years it plans to launch up to 60 products, which should help drive growth.

General Motors

Under its umbrella, General Motors has 11 brands: Chevrolet, Buick, GMC, Cadillac, Opel, Vauxhall, Holden, Autobaojun, Wuling, and Faw Jiefang. The automaker is about 17% below its 52-week high.

At US$31.60, it's priced at about 6.1 times its earnings, while it has normally traded at at least nine times its earnings. Assuming General Motors expands to a multiple of nine, there's a 55% upside. On top of that, it offers a 4.8% yield that helps contribute to the total return.

Linamar

Linamar is a top global automotive supplier with operations in North America, Europe, and Asia, and it plans to expand into China, Brazil, and India for further growth.

The company is about 30% below its 52-week high. At under $61, it’s priced at about 9.1 times its earnings. Assuming it expands to its normal multiple of 11.7, it has an upside potential of about 45%.

Conclusion

Linamar’s debt-to-cap ratio is 19%. Concordia and General Motors aren’t exactly high-quality companies. Concordia’s S&P credit rating is B (so it’s not investment grade) and its debt-to-cap ratio is 53%. General Motors’s S&P credit rating is BBB- and its debt-to-cap ratio is 42%. However, small positions may be warranted if you find their valuations too cheap to pass up.

Investors should consider this basket of cheap stocks to spread their risk out in case not all of them play out favourably. Additionally, investors should allow at least three to five years for these companies (or their negative sentiments) to turn around.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:GM (General Motors Company)
2. TSX:LNR (Linamar Corporation)

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