3 TSX Stocks Under $10 Worth the Risk

Description

Stocks under $10 get no respect from investors and analysts alike. While that might be true, it doesn't mean that you should ignore them entirely. Sometimes there's a backstory that needs to play itself out before planning the funeral. After all, good things come in small packages.

By my count, there are 49 stocks under $10 on the TSX as of April 29–more than 20% of the total number of the index's constituents. In comparison, there are only eight trading over $300. We've got our work cut out for us if we're going to find a trio of stocks under $10 that aren't a dog's breakfast.

That said, here are my three TSX stocks under $10 that are worth the risk.

Performance Sports Group Ltd. (TSX:PSG)(NYSE:PSG)

Oh, how the mighty have fallen.

The owner of the Bauer and Easton brands of hockey and baseball equipment first went public in March 2011 at an IPO price of $7.50 per share. Three years later in June 2014, it did a U.S. IPO at US$15.50 per share, raising US$110 million. Right about the same time, its then-CEO Kevin Davis was named Ernst Young Entrepreneur of the Year for the New England region.

That was then.

Today, its stock is less than $5; Davis stepped down in late March after eight years as a result of the company's earnings taking a serious dive off a cliff. Originally guiding for 2016 adjusted EPS of US$0.55, in early March it cut guidance drastically to between US$0.12 and US$0.14 per share.

That's not the kind of announcement you can bounce back from. But there is a silver lining.

Sagard Capital, an impact investment firm owned by **Power Corporation**, announced April 28 that it had acquired an additional 441,311 shares of Performance Sports Group and now owns 16% of its outstanding shares and is the largest shareholder.

It’s definitely a big deal anytime the Desmarais family takes an interest in any business and a major reason why its stock rallied in April. But make no mistake about it–it’s got a mighty big hill to climb.

That’s because while Sports Authority will account for nine cents of losses in 2016, both its hockey and baseball operations are witnessing slowdowns in their respective businesses, and that will result in earnings declining by another US$0.50 as a result.

Some investors have a portion of their portfolio set aside for fun money where they might take 10% of the overall funds and commit them to investments they enjoy–Performance Sports Group is definitely in that category. It’s not a core holding by any means.

Tricon Capital Group Inc. (TSX:TCN)

If you’re leery of U.S. real estate, then perhaps this shouldn’t be one of your three best stocks under $10. I, on the other hand, see a stock returning to $12 very shortly.

What’s to like about Tricon?

Well, it manages US$2.7 billion in real estate, 98% of which is in the U.S. The American housing sector is recovering nicely, and that’s put Tricon in the catbird seat when it comes to future profits. In 2015 its adjusted EBITDA grew by 11% year over year to US$109 million.

While it’s got several different types of investments in the U.S., none has more potential than Tricon American Homes, its single-family rental portfolio that numbered 7,193 homes at the end of 2015 and should increase by 1,600 in 2016. Its investment income from this division increased by 79% in 2015 to US$30.6 million on the back of a 400 basis point increase in its in-place occupancy to 88%.

As they say, “You want to put bums in those seats.”

I could go on but I won’t. Suffice to say, there are some pretty big players in the owning and renting of single-family dwellings in the U.S., and Tricon is positioned to benefit from its investments there.

Martinrea International Inc. (TSX:MRE)

The maker of automotive parts made it under $10 by a whisker and, while you could have bought its stock for 20% less a couple months earlier, I still see 50% or more upside over the next couple of years if the car business remains relatively healthy.

While oil prices are rising, they’re still much cheaper than they were two to three years ago. Combine that with low interest rates and a healthy housing sector, and you’ve got a consumer who’s feeling good about major purchases; not to mention the average age of cars on the road still exceeds 10 years, despite the fact car companies have been moving their inventories fairly quickly. People still want to own new cars.

Now consider the company’s financial situation.

In the tough times of 2009, it was generating $1.1 billion in revenue. In 2015, it pushed $3.9 billion across the top line with $317 million in adjusted EBITDA on the bottom. Business is as strong as it’s ever been, and yet it's struggling to keep its head above $10.

Right now, its business outside North America and Europe represents just 3% of overall revenue–but it's growing. In Q4 2015, revenues outside its two major markets grew 98% year over year to $31 million. It's not a lot by North American standards, but it's promising nonetheless.

Like Tricon, I see a lot more upside with Martinrea than downside.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:MRE (Martinrea International Inc.)
2. TSX:TCN (Tricon Residential Inc.)

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