



2 Contrarian Stocks for Outstanding Returns

Description

Stocks that are out of favour can deliver extraordinary returns. The following companies have very depressed stock prices and can potentially deliver exceptional returns over time.

Concordia Healthcare Corp. (TSX:CXR)(NASDAQ:CXRX) owns a diversified portfolio of branded and generic prescription products. It has three operating segments, including Concordia North America, Concordia International, and Orphan Drugs.

In the first quarter, it generated revenues of US\$228.5 million, of which 61.2% came from its International segment, 37.6% came from its North America segment, and 1.2% came from its Orphan Drugs segment.

The stock has declined more than 70% in the last year from \$92 to under \$28 per share. It now trades at a dirt-cheap multiple of 4.1.

The problem with Concordia is that it is highly leveraged. It took on large amounts of debt to finance the AMCo acquisition, which diversified its product offering and opened its doors to 100 countries.

At the end of the first quarter, Concordia had long-term debt of \$3.3 billion, but about 69% of it mature beyond five years. Currently, Concordia debt/cap ratio is 74%.

If Concordia can show that it can pay down its debt over time, it will steadily trade at a higher multiple.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) has about 300 manufacturing operations and roughly 90 product development, engineering, and sales centres in 29 countries.

The auto parts supplier produces the body, chassis, exterior, seating, powertrain, electronic, vision, closure and roof systems and modules. It also does complete vehicle engineering and contract manufacturing.

The stock has declined more than 36% in the last year from \$71 to \$45 per share.

Some analysts say that cyclical companies should be bought when their multiples are high and sold when their multiples are low, but following that philosophy, investors should have bought between 2014 and 2015 (when it traded above its 10-year normal multiple of 10.7) and sell now because it currently trades at a low multiple of 7.3. So, investors would be selling at a loss.

Instead, if you believe in the long-term prospects of Magna, you should dollar-cost average into a position on weakness.

If Magna's growth rate resumes when the cycle turns again, it will trade at a higher multiple, and that's when shareholders should book their profits.

On the plus side, investors starting a position in Magna today get a 2.9% starting yield.

Conclusion

Concordia and Magna are priced at cheap valuations compared to their historical norms. However, huge conviction and patience are needed to hold on to them for potentially outstanding returns because they exhibit the characteristic of above-average volatility. So, interested investors should dollar-cost average into their positions on dips and shouldn't bet the farm on them.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

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