Why These 2 Stocks Could Have 50% Upside (or More) This Year

Description

It is often said that timing is critical to successful investing, and no statement could be truer. Although it is important that investors keep a long-term horizon and purchase businesses that have predictable earnings growth several years out, the timing in which positions are entered in these businesses is everything.

Investors with a value-focused approach, for example, generate returns by purchasing businesses when their share prices fall far below the underlying value of the business. The oil-based sell-off that occurred throughout 2015 was a fantastic opportunity for value investors to purchase energy and energy-correlated names that were pricing in US$30 oil where the long-term price would be much higher.

While the opportunities in this regard are not as great (or as obvious) as they were earlier in the year, they still exist. These two names are currently rallying and are very likely to see their momentum continue as much as 50% more.

Air Canada

As recently as 2012, **Air Canada** (TSX:AC)(TSX:AC.B) was in bankruptcy court, had been facing a $4 billion pension shortfall, and was dealing with numerous labour issues. The company is currently in the middle of a historic transformation from its bankruptcy, which has so far seen it grow its revenues by 40% and eliminate its pension shortfall.

The labour issues that resulted in flight cancellations in the past are now firmly behind Air Canada as the company just ratified new long-term, flexible labour agreements with all of its unions, and the company is well on track to achieving its key 2018 targets, which include a leverage ratio of 2.2 (down from 3.4 in 2012) and profit margins of 15-18% (which the company already overachieved on with 18.5% margins in 2015, down from 11.5% in 2012).

Going forward, Air Canada will continue to drive revenue growth through longer international flights and greater seat density. The company's free cash flow is set to expand substantially as capital expenditures as a percentage of cash flow from operations moves from over 100% in 2014 to an expected 15-30% by 2020.

This should help close the persistent valuation gap between Air Canada and its peers, because Air Canada currently trades at 2.1 times its 2017 earnings compared to 4.4 times for its peer group. Matching this would lead to well over 100% upside.

Crescent Point Energy Corp.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) will also see major upside, driven by a combination of rising oil prices and improving free cash flow, which will drive higher production and a potential dividend hike.

Rising oil prices will provide the backdrop for Crescent Point shares rising. The U.S. has become the key global swing producer, and with breakeven prices for U.S. producers being around US$60 per barrel on average, some further price appreciation will be required for U.S. producers to start drilling once again.

Crescent Point has top-tier assets in North America in terms of payout (how long it takes a well to pay itself back, so cash can be redeployed), and this in turn gives Crescent Point a strong free cash flow profile as prices rise.

Crescent Point expects $500 million of free cash flow by the end of 2017, assuming a conservative oil-price profile (US$45 per barrel this year and US$50 per barrel next year). This gives Crescent Point the option to ramp up production, pay down debt, or hike its dividend, all of which will attract more shareholders. Once oil prices stabilize, Crescent Point will become a key name to own due to its production growth profile and best-in-class assets.

How much upside does Crescent Point have? Analysts at **TD Bank** see roughly 50% upside, assuming oil prices average US$60 per share in 2017. Investors who are willing to assume this oil-price outlook is correct will almost certainly be rewarded.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:AC (Air Canada)
3. TSX:VRN (Veren Inc.)

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