



Increase Your Portfolio's Potential With These 3 Top Turnaround Stocks

Description

Turnaround investing, which has never really been popular, is particularly unloved today. Many investors simply won't touch stocks they view as having serious problems.

A simple mantra drives their decisions. As the popular saying goes, "turnarounds never turn."

I disagree with that saying. Turnarounds often turn. It's just they're left for dead first. Only after months—or even years—of toiling in obscurity do fortunes for these beleaguered companies start to turn positive again. By that point, investors have largely moved on to other things, meaning the company in question turns things around without anyone really noticing.

Investors who get in before the turnaround is complete can make some serious profits. Gains of 100%, 200%, or even more are common. Not every turnaround stock will give that kind of gain, of course, but the winners more than make up for the losers, leading to a nice overall return.

Here are three TSX stocks with huge turnaround potential.

TransAlta

Everything has seemingly gone against **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) over the last few years. Power prices have decreased in Alberta, its main market. Its fleet of coal-fired power plants needed costly repairs. And then Alberta's new NDP government dropped the hammer, saying the province would be coal-power free by 2030.

This sounds very bad for a company that gets about 40% of earnings from coal operations in Alberta. But it's not as bad as one might think. Many of TransAlta's coal-fired plants were scheduled to be mothballed before the 2030 deadline, and the company is likely to get a cash settlement for its losses on the others.

In the meantime, investors are buying an incredibly cheap stock. At \$6.23 per share, TransAlta trades at about the value of its stake in subsidiary **TransAlta Renewables**, meaning investors are not only getting the coal-fired assets for free—which, remember, are still quite profitable—but they're also getting

TransAlta's other assets for nothing, which include natural gas, hydro, and wind power.

Or, to put it another way, the company expects to generate between \$250 and \$300 million in free cash flow. That's insanely cheap for a company with a \$1.8 billion market cap.

Dream Office

Dream Office Real Estate Investment Trst ([TSX:D.UN](#)) is suffering from an Alberta problem.

The REIT, which is Canada's largest pure-play owner of office property with 160 different properties spanning more than 22 million square feet of space, is hurting because more than 25% of its rent comes from Alberta. Economic weakness in the province has made investors scared that rents from just about every tenant are at risk.

Management is aware of this and is taking steps to bridge the gap between the company's \$19 share price at its net asset value of approximately \$30 per share. These steps include selling properties in more stable markets and cutting the dividend to free up cash and buy back undervalued shares.

This plan, plus Alberta's slow recovery, could be very good news for patient shareholders who get in now. And investors are getting a dividend of 7.9% to wait—a nice consolation prize.

Empire

To say **Empire Company Limited** ([TSX:EMP.A](#)) is having problems with the integration of its 2014 acquisition of Safeway would be a massive understatement. The transition has been so plagued with problems that Empire has written off some \$3 billion of the goodwill associated with the deal.

But not all is bad for Canada's second-largest grocer. Shares trade hands at about 14 times trailing earnings once you strip out one-time items, making it far cheaper than its competitors. Forward earnings expectations are even more bullish, with shares trading at just 13 times expected fiscal 2017 earnings.

In fact, Empire is cheaper than its peers on all sorts of other metrics, including price-to-sales, price-to-book value, and others. It even has a higher dividend yield than most others in the sector, coming in at 2%.

Any of these three companies has major upside if management can execute a turnaround in the business. Perhaps investors should look at getting some of that potential in their portfolios.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:D.UN (Dream Office Real Estate Investment Trust)
3. TSX:EMP.A (Empire Company Limited)

4. TSX:TA (TransAlta Corporation)

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