



Contrarian Investors: 2 Unloved Stocks With Huge Upside Potential

Description

Contrarian investors are always searching for unloved stocks that could be on the cusp of a big recovery.

Let's take a look at **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)) and **Kinross Gold Corp.** ([TSX:K](#))([NYSE:KGC](#)) to see why they might be interesting picks.

Baytex

Baytex was a \$48 stock in 2014. Today, investors can pick up the troubled oil producer for about \$3 per share.

What happened?

A large acquisition made at the peak of the market saddled Baytex with debt. As oil prices plunged, cash flow dried up, and within a few months, the company had to make drastic cuts to the dividend.

Income investors bailed out, but value investors are now starting to kick the tires on the stock.

Why?

Management has actually done a good job of keeping the company alive through the downturn. Baytex renegotiated terms with lenders while there was still a window of opportunity to do so and raised capital when oil briefly recovered in 2015.

As a result, the company has retained most of its assets, and this is the reason value investors see potential in the stock.

Baytex has said its net asset value is at least \$9 per share. If you think the company's numbers are correct, there is attractive upside potential in this stock if oil can extend its recent recovery.

Production is even rising this year, up 12% in Q2 compared to Q4 2016, and the company reported a minimal impact on output due to the shutdown caused by Hurricane Harvey.

Kinross

Kinross spent US\$7 billion back in 2010 to acquire Red Back Mining in a deal that was supposed to launch the company into the big leagues.

Unfortunately, gold peaked in 2011, and the assets have never lived up to expectations. Kinross wrote down the value of most of the Red Back deal and has worked hard to clean up the balance sheet.

Now, the company is once again focused on growth, and one of the properties that came with the Red Back purchase might finally deliver on its potential.

Kinross is expanding its Tasiast mine in Mauritania through a two-stage process that will boost average annual production to 812,000 ounces per year at all-in sustaining costs of US\$655 per ounce.

If gold can hold its current price, or even move higher in the coming years, Kinross stands to generate significant free cash flow from the mine.

The stock traded for \$20 per share in early 2010. At the time of writing, investors can pick it up for \$5.

Is one more attractive?

Both stocks are at the mercy of their respective commodities, so it all depends on where you think the markets are headed.

If you happen to be an oil and gold bull, I would probably split a contrarian position between the two names.

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1. Energy Stocks
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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:K (Kinross Gold Corporation)

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