



Top 3 Contrarian Canadian Picks for 2018

Description

If you'd followed my buy recommendations from [last year's top three contrarian picks](#) for the new year, you would have easily crushed the S&P 500 and the TSX. Two huge winners and one loser were in that bunch, but the gains from the winners heavily outweighed the ~11% loss from the loser. You don't need to be right all the time, so depending on the magnitude of your winners, you could easily whack the market with a 60% success rate on your stock selections.

For 2018, I'm going to recommend three fresh contrarian picks that I believe will give investors next-level returns, regardless of which direction the markets are headed. Being a contrarian isn't as simple as picking up a beaten-up dog with the hopes that it'll rebound. You need to dig deeper into the fundamentals and paint a picture of how a firm will get out of the hole it's dug itself in. And you'll need to consider the downside risks and potential catalysts that could propel a stock higher over the medium to long term.

Without further ado, here are my top three contrarian picks for 2018:

Cineplex Inc. ([TSX:CGX](#))

I called [Cineplex's meltdown](#) and [warned investors](#) on [numerous occasions](#) before shares nosedived ~43% from peak to trough. I was indeed "pounding the table" on my sell recommendation and stated that there was a really good chance that shares would "drop by a considerable amount" in 2017.

Fast forward to today, the stock is a falling knife, and the yield has soared to 5.35%, nearly a full 2% higher than the company's historical average dividend yield. I've been recommending investors nibble away at shares on the way down, but emphasized that there would be a great deal of near-term pain, since there would likely be little to no near-term catalysts to propel the stock out of its funk.

At the time of writing, shares trade at a 30.4 trailing price-to-earnings multiple, and it appears there's no bottom in sight. The fundamentals aren't very attractive, and that dividend may be stretched to its limits; however, I think Cineplex may be active when it comes to M&A activity this year, as it doubles down on its efforts to diversify away from the box office and concession segments. I think such acquisitions could be a positive driver of shares and reaffirm Cineplex's premium growth multiple,

which still exists after the catastrophic plunge.

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#))

Enbridge shares are down ~34% from all-time highs, and there are growing concerns over its debt load, its credit downgrade, and the decision to follow through with a 10% annual dividend hikes, even though the company likely hasn't "earned" it.

The company is keeping its promises, and long-term income investors now have a once-in-a-lifetime opportunity to lock in a ~6.2% yield on a wonderful wide-moat business that I believe will rebound in time. The Line 3 replacement (set for 2020 completion) will be a major driver of growth, so I think contrarians should back the truck up on this company, which I believe will not remain at these depressed levels for very long.

Shaw Communications Inc. ([TSX:SJR.B](#))([NYSE:SJR](#))

Shaw is down ~23% from 2014 highs, and the ~4.4% dividend yield is another reason to get contrarian income investors excited. I'm a raging bull on Shaw's wireless business, and I think Shaw is going to accelerate in the latter part of 2018, as infrastructure upgrades are rolled out, while promo ramp-ups continue to entice subscribers from the Big Three incumbents.

Given the long-term growth picture, Shaw is severely undervalued, and the recent dip doesn't faze me in the slightest, as I'm planning to add to my position on further signs of weakness. Shaw is my number one telecom pick for 2018, as I think shares will pop to \$33 by the year's end, as the Big Three players finally start to feel the heat from the fourth major wireless player.

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1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SJR (Shaw Communications Inc.)
3. TSX:CGX (Cineplex Inc.)
4. TSX:ENB (Enbridge Inc.)
5. TSX:SJR.B (Shaw Communications)

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