3 Blue-Chip Stocks Just Hit 52-Week Lows: Which 1 Should You Buy?

Description

A market sell-off can be painful — more so when blue-chip stocks bear the brunt.

A blue-chip stock is typically a company that has been around for decades and dominates — or is among the top players in — its industry, and it boasts sustainable competitive advantages that have helped it build a solid operational track record that's likely to continue.

By my investing experience, most blue-chip stocks prove to be winners in the long run, as they hold the potential to escape unscathed, or recover quickly, after a market sell-off.

Not surprisingly, blue-chip stocks that tumble during market mayhem almost always catch my attention, just like **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), **BCE Inc.** (TSX:BCE)(NYSE:BCE), and **Loblaw Companies Ltd.** (TSX:L) did.

All three stocks hit their 52-week lows in the past couple of days and are now trading under 10 times price to cash flow. Only one stock among the three, though, looks too cheap and compelling to pass up.

Loblaw: Avoid

Loblaw shares are down nearly 15% from their May 2017 highs for valid reasons.

Among other things, the two biggest concerns for Loblaw investors have been a price-fixing scam that's hurting its reputation and a tax dispute with the Canadian Revenue Agency that could cost it hundreds of millions of dollars.

This comes at a time when Loblaw is struggling to grow its top line and margins, as it faces a huge threat from **Amazon.com's** venture into the grocery business.

Despite the gravity of the situation, Loblaw stock has lost only 5% in one year, reflecting remarkable resilience even in the face of challenges. One reason is the stock's low beta of 0.6, which means Loblaw stock is 40% less volatile than the market.

That’s great when the market is falling, but beta should matter little to long-term investors, simply because beta is a historical measure and doesn’t account for firm-specific risks.

BCE: Buy

Rising interest rates — that make dividend stocks less appealing — and alleged sales tactics that have come under the scanner have taken some sheen off BCE stock, which is now down about 8% in just three months.

BCE, however, remains a top wireline, wireless, TV, and broadband player, especially after its $3.9 billion acquisition of Manitoba Telecom Services (MTS) last year. Bell MTS has lined up a $1 billion capital investment plan for Manitoba.

For fiscal 2017, BCE is on track to report 4-6% growth in revenue. Its adjusted earnings per share could be lower by mid-single-digit percentages, but BCE expects its free cash flow (FCF) to grow 5-10% and maintain a FCF dividend payout of 65-75%. I expect encouraging guidance for 2018.

At a price-to-cash flow ratio of only 6.8 times and a dividend yield of 5%, BCE looks like a good buy right now.

Enbridge: Strong buy

Enbridge is the biggest loser among the three stocks discussed here, tumbling nearly 25% in the past one year. The sell-off is hugely overdone, in my opinion.

Investors are concerned that Enbridge may have paid an unreasonable premium to acquire Spectra Energy for $37 billion, which could hurt its cash balance and dividend growth. Enbridge’s dividends, after all, have had a major investor appeal over the years.

The concerns, however, are overblown. Having acquired Spectra, Enbridge is now the largest energy infrastructure company in North America, having added natural gas pipelines to its portfolio and billions of dollars of projects.

Meanwhile, management plans to raise $10 billion from the sale of non-core assets in coming years to deleverage its balance sheet and boost the dividend annually by 10% through 2020.

For the prospects, Enbridge looks like a steal deal right now at a price-to-cash flow ratio of nine times and a dividend yield of 5.4%.

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