3 Turnaround Stocks, 3 Massive Opportunities

Description

Turnaround stocks offer investors the chance to participate in big capital gains if the companies are, in fact, turning around.

Let’s look at three companies that are at different points in their turnarounds but that all have good potential.

BlackBerry Ltd. (TSX:BB)(NYSE:BB) shares have a one-year return of 75%, as CEO John Chen continues to lead the transformation of the company.

Increasingly focused on technology for the self-driving vehicle market, which is still emerging, BlackBerry is showing strong early signs.

The company has engaged in different partnerships with automakers such as **Ford Motor Company**, which has expanded its use of BlackBerry’s QNX software for connected and autonomous cars.

The balance sheet remains strong, with cash plus short-term investments of more than $2 billion, an increasingly larger percentage of revenues are recurring, and the company’s cash flow generation and minimal debt set it up to continue to invest in the business and grow organically and/or through acquisitions.

Empire Company Limited (TSX:EMP.A) is also involved in a transformation of sorts. What we are seeing in the company is a renewed focus on efficiency, cost reduction, and delivering the customer a better offering that is designed to improve customer satisfaction.

And with CEO Michael Medline at the helm, who was responsible for improving **Canadian Tire’s** business, we have reason to be optimistic. He has a good track record and has delivered top-notch results in his career.

Empire has consistently beat expectations this year, and accordingly, the stock has a one-year return of 48%.

And recent results (the third quarter of fiscal 2018) show no signs of stopping, as same-store sales growth of 1.1% was an impressive showing given the deflationary environment that the company is facing.

The company's focus brought in free cash flow of $269.4 million and adjusted EPS of $0.33 compared to $0.13 in the same quarter last year for a 154% growth rate.

Project Sunrise, the three-year plan to simplify the organization and achieve annualized cost savings of approximately $500 million by fiscal 2020, is already achieving cost savings which will continue to trickle down.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX) also recently released its fourth-quarter and year-end results, and although 2018 guidance was disappointing, the company is showing good signs as well.

Make no mistake; earnings are still dropping. The stock has been killed, taken down from levels of over $300 per share to under $20 currently.

Needless to say, the company's new CEO definitely has a big task ahead of him, with 2018 being the year to set things up for the future.

The core strategy is a sound one, with a focus on reducing patent risk and benefiting from the secular trend of rising demand for healthcare and healthcare-related products, as our population continues to age.

And after a few quarters of meeting or beating expectations and room to beat 2018 expectations, patient investors might be rewarded a few years down the line.

A reduced R&D risk profile, the clearing of legal issues, and a strengthening of the balance sheet would go a long way.

An improved incentive structure is a positive step in improving the culture at the company, but continued high debt levels, accelerated product launches and spending will put the pressure on results in the near term.

It's short-term pain for long-term gain.

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3. TSX:BB (BlackBerry)
4. TSX:BHC (Bausch Health Companies Inc.)
5. TSX:EMP.A (Empire Company Limited)

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