

2 Deep-Value Stocks to Buy and Hold

Description

We're all familiar with the concept of value investing, where an investor buys high-quality stocks that are trading at discounts to their intrinsic values. But what you may not be familiar with is the concept of deep-value investing, where an investor looks at the most battered of stocks and attempts to purchase them to increase the magnitude of gains should a rebound occur.

Deep-value investing is not for the faint of heart, as it truly requires patience and a contrarian mindset. To be such an investor requires ample discipline and a high tolerance for pain, as a lot of the time, one must ride out major short-term declines for the hope for a large long-term gain, which may not end up happening if an investment thesis is not sound or timely enough at the time of purchase.

If you're the kind of investor that's willing to stick with your thesis in spite of extremely negative sentiment, then deep-value investing may be a strategy that can work for you. One must take the time to do all the homework and analyze every potential negative scenario, though, since it's possible that one could end up sticking with a value trap or a cigar butt, which may not even have a single puff of smoke left in it.

Without further ado, here are two deep-value stocks that I believe can offer profound upside for those who can withstand disappointment over the medium term.

[Cenovus Energy Inc.](#) (TSX:CVE)(NYSE:CVE)

To say Cenovus made was caught off guard during the oil plunge would be a vast understatement. Not only was the company put between a rock and a hard place, but management shot themselves in the foot (in terms of short-term stock performance) by going all-in on Alberta's troubled oil patch with the acquisition of assets from **ConocoPhillips**, one of the few foreign firms that has thrown in the towel on Canada's seemingly hideous energy sector.

Management made its fair share of mistakes in the past, but as the stock plunged ~74% from 2014's peak to 2017's trough, the company has been laying down a foundation, which could finally pay off in a few years down the road.

The stock trades at a 5.65 trailing P/E, a 0.7 P/B, a 0.8 P/S, and a 4.3 P/CF, all of which are profoundly lower than the company's historical average multiples of 23.7, 1.7, 1.1, and 8.8, respectively. Also, keep in mind that Cenovus shares have been on the decline during this five-year span.

[Nutrien Ltd.](#) (TSX:NTR)(NYSE:NTR)

Nutrien is a new stock that many investors may not have been introduced to yet. In case you haven't been following the Canadian agriculture industry, Nutrien is the combination of the Potash Corp. and Agrium.

Potash Corp. and Agrium have joined forces to better weather the immense headwinds facing fertilizer

commodities: potash, nitrogen, and phosphorus. These commodities are trading at a low point and are very necessary for the accelerated growth of agricultural products.

As the global population continues to surge, the certainty of a rebound in these agricultural commodities, I believe, is more certain than that of other beaten-up commodities, like oil or uranium, which could face a prolonged (perhaps permanent) period of price weakness.

As such, Nutrien offers the best of both worlds: substantial long-term upside from a rebound in potash prices (assets from Potash Corp.) and a robust retail segment (from Agrium) that will better weather the continued weakness in commodity prices. Not to mention the considerable synergies to be realized, as the two businesses integrate before what could be a potential rebound in agricultural commodities.

Bottom line

Both Cenovus and Agrium are neither timely nor technically sound investments at these levels, so investors shouldn't feel compelled to back up the truck on a full position today. Rather, a dollar-cost averaging approach dispersed across quarters may be a more suitable strategy to minimize risk to gradually scale in to a position.

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Author

joefrenette

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