3 Controversial Stocks That Investors Should Forgive and Buy for Profound Upside Potential

Description

Businesses, like humans, make mistakes. Sometimes these mistakes are forgivable, and sometimes they're not. In the latter case, complete management overhauls are typically required if the underlying assets are still attractive, and assuming the company didn't end up going belly up from hurting its own shareholders with unethical practices.

In this piece, I'm going to mention three companies with battered stocks that may be on the road to recovery. These stocks are overly beaten up and could realistically deliver market-beating upside, as investors slowly but surely forgive, forget, and start to invest in them again.

Without further ado, here are the stocks:

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX)

Just the name of the company is enough to make any investor cringe with disgust. Although the infamous house of cards caved in nearly three years ago, the scandal is still clear in the minds of many investors, especially Bill Ackman, who lost his shirt when buying more shares on the way down, only to throw in the towel when shares hit rock bottom.

There's no question that Valeant serves as a prime example of "corporations gone bad," and over the next few decades it will serve as a part of ethical teachings.

Back to the present. Valeant has essentially grown into a new company with CEO Joe Papa at the helm; he has done an impeccable job of stopping the ship from sinking. There's no question that there was an insurmountable amount of debt, but through a series of non-core asset sales, Papa and company were able to raise enough cash to chip away the debt such that the company now has enough breathing room to focus on organic growth initiatives and use that cash to pay off the remainder of the long-term debt that remains.

Valeant is slated to change its name to Bausch Health Companies this July, and with plenty of potential drivers in its pipeline, I think forgiving Valeant (or Bausch) and placing a bet today may have a very good chance of being a profoundly profitable endeavour over the next three years.

Home Capital Group Inc. (TSX:HCG)

This alternative lender startled many investors (and Home Capital Group GIC owners) when it was on the brink over a year ago. Like Valeant, Home Capital was involved in fraudulent activities (creating mortgages with false income information), but since the incident, about 45 brokers have been suspended, and ex-CEO Martin Reid was given the axe.

In the heat of the moment, it seemed like Home Capital Group would go under, with infamous short seller Marc Cohodes exacerbating investor fears. Warren Buffett came to the rescue with a $400 million equity investment and a line of credit, which eased the fears of many investors, who eventually became confident enough to reject a second tranche offering from the Oracle of Omaha a few months later.

It was a great save by Buffett!

Today, Home Capital Group is on the road to recovery and could be slated to enjoy positive effects from harsher mortgage rules put in place big by the big Canadian banks. That means higher-credit applicants will be heading to an alternative lender like Home Capital Group.

Restaurant Brands International Inc. (TSX:QSR)(NYSE:QSR)

Another franchisee is angry with the owners of Tim Hortons!

If you're like me, you're probably sick to your stomach by now with these countless number of negative stories related to disgruntled franchisees, and why Restaurant Brands management is the source of all problems.

I think the endless stream of negative news is exacerbating the fears of investors, and I don't think Restaurant Brands's brief bear market moment was warranted.

Yes, the Tim Hortons franchisee-franchisor relationship is anything but peachy, and yes, short seller Jim Chanos is betting against Restaurant Brands, but that doesn't mean you should follow the herd and sell.

I believe the relationship is repairable, and those who are patient enough will be rewarded profoundly. The +3% dividend yield should be more than enough of an incentive to ride out the volatile times, as investors begin to re-focus on the long-term growth story.

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joefrenette