Bargain Bin: 3 Stocks Down Over 20% YTD

Description

Not all sell-offs are created equal.

Stocks can experience downward pressure for any number of reasons, from flying too high, to earnings misses, or simply becoming unpopular. The challenge for investors seeking buying opportunities is to differentiate between the true losers and the winners in disguise.

Let’s take a look at three stocks that have suffered year to date to sort out which ones will be tomorrow’s stars and which ones are destined for further declines.

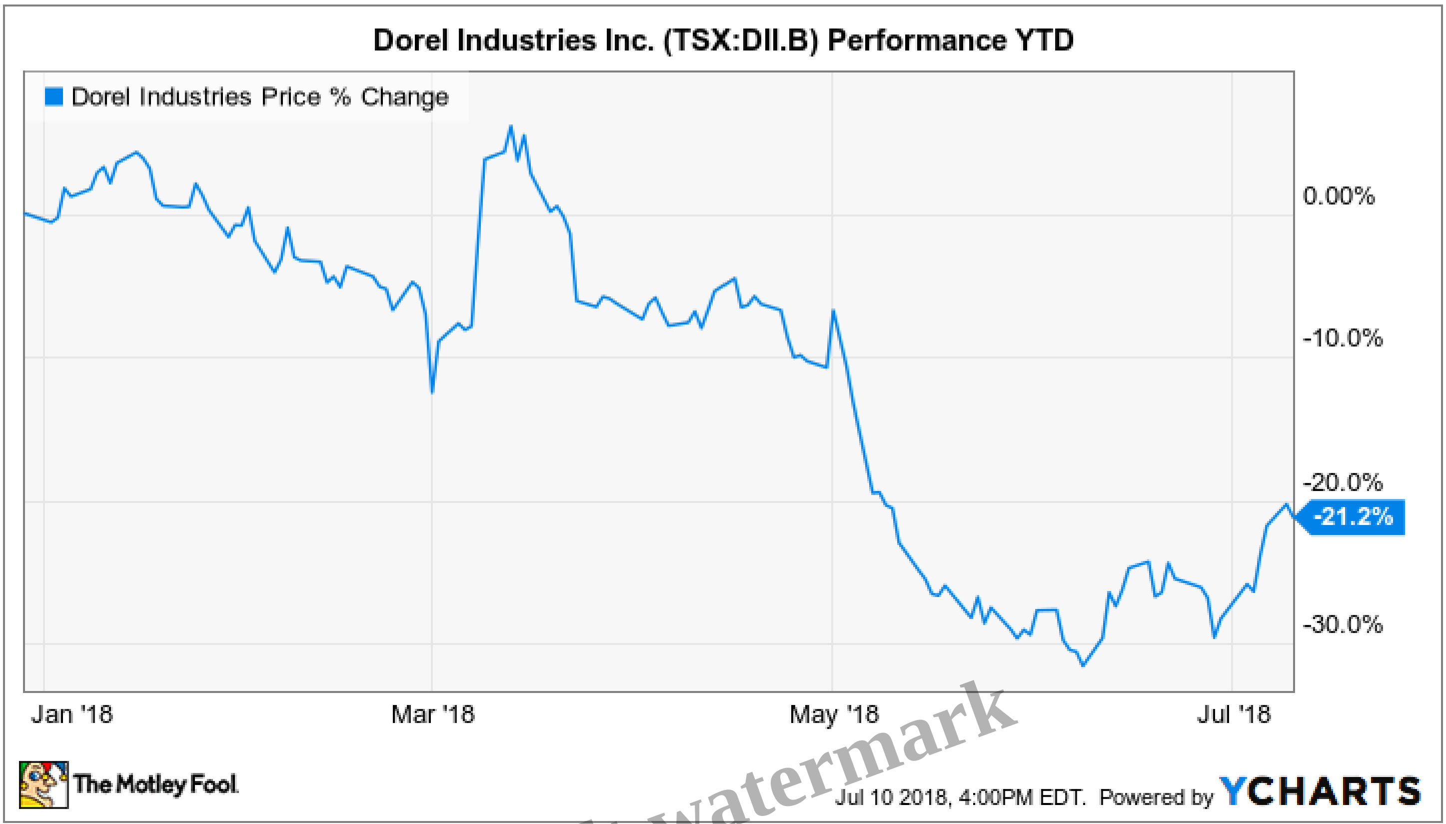
Cogeco Inc. (TSX:CGO)

Cogeco is a holding company which has subsidiaries that operate in telecommunications and media. **Cogeco Communications Inc.** (TSX:CCA) provides television, internet, and home phone services to residential and commercial customers in Canada and the United States. Cogeco Media is an owner and operator of radio stations in Quebec.

Down around 35% year to date, Cogeco still trades about a dollar above its 52-week low. The company's stock price has been in free fall since it hit $96.87 on December 1, 2017, losing roughly 40%.

Trading at a price-to-earnings multiple of about 7.5 and a price-to-book ratio of just under 1.5, Cogeco offers compelling value and five-year average earnings growth of roughly 13% to boot.

Cogeco pays a quarter dividend of $0.39 — good for an annualized yield of the order of 2.7%. The company has a track record of raising its payout at the time of the November distribution and did so last year with an increase of around 15%.

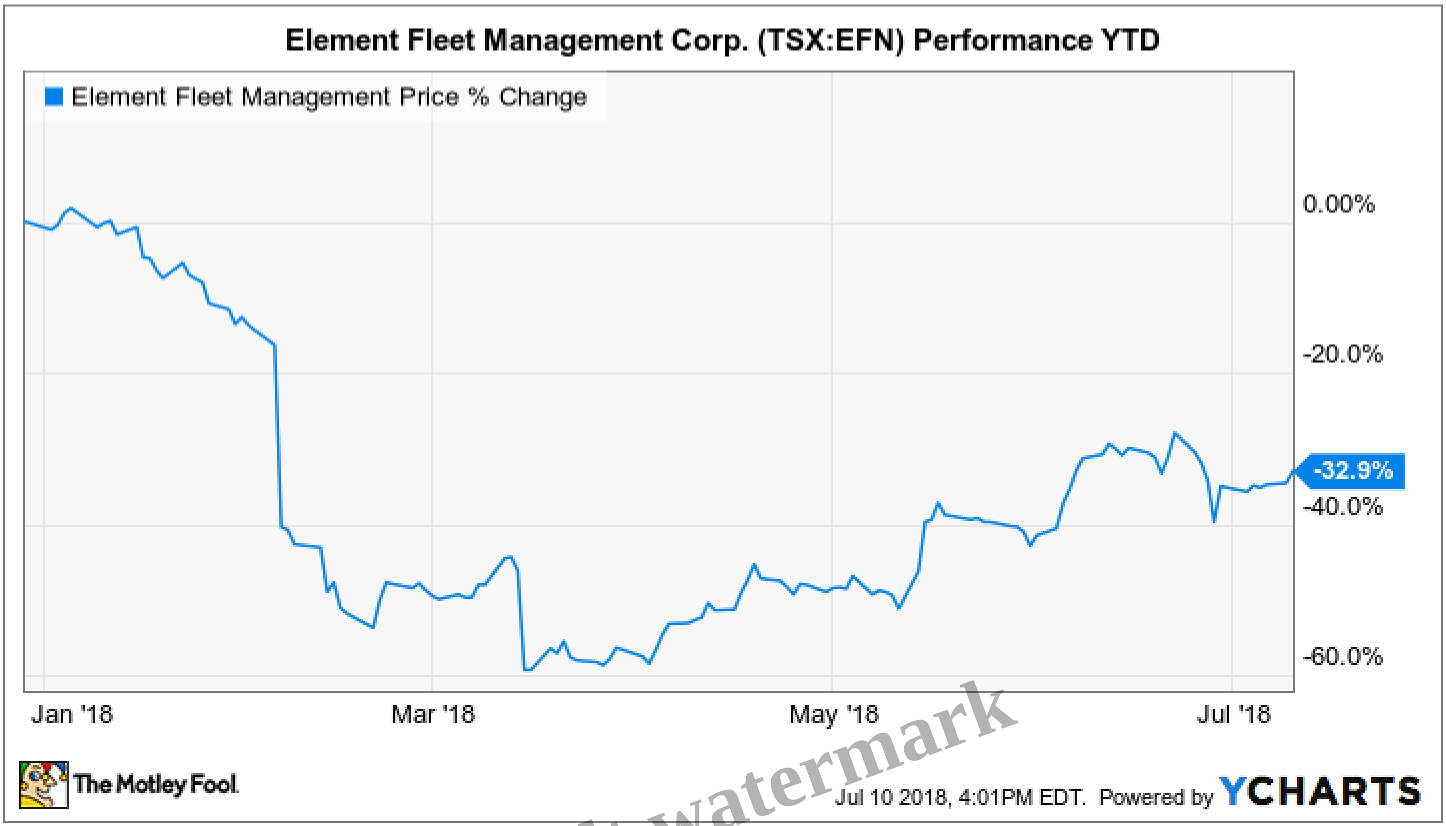


Dorel Industries Inc. (TSX:DII.B)

Dorel's business is built around furniture, bicycles, and a plethora of products for infants and young children. The company has been adversely affected by the unwinding of Toys "R" Us Inc.'s U.S. operations earlier this year, which has weighed heavily on its shares.

Down roughly 20% year to date, Dorel is trading around 16% above its 52-week low. The stock began its recent downward leg in May and has only recently begun to recover.

Of the three companies covered in this article, Dorel is the most deeply discounted on a price-to-book basis with a ratio of a little over 0.5. For income investors, the company also offers the best yield of the group at around 6.2%; Dorel pays a quarterly dividend of US$0.30.



Element Fleet Management Corp. (TSX:EFN)

Element provides financing and management services for fleets of commercial vehicles. The company has a diverse customer base with vehicles serving a wide range of industries. Following a dismal press release in February, Element's stock took a beating from which it has yet to recover.

Element's stock has lost just under 35% year to date, but it began an impressive rebound in April that has seen gains of almost 100% off of its 52-week low of $3.21. Less than a year ago, Element traded as high as $11.03, roughly 75% above its current price.

Despite its choppy stock price performance, Element has grown revenues at an impressive clip, delivering three-year average growth in excess of 50%. At its current price, the company trades below book value, with a price-to-book ratio of about 0.75.

Offering a yield of around 4.8%, Element makes for an interesting income play. The company has only paid dividends for a few years, but in that time it has gone from offering $0.025 per quarter to $0.075 — a 200% increase.

Conclusion

An investment case could be made for any of the above stocks, but Cogeco is likely to represent the best balance of risk and reward. Analysts have weighed in on the stock, and the consensus price target is roughly $77, which translates to potential upside of more than 30%.

Rummaging through the bargain bin is not for every investor, but it can be a boon for those willing to do their research and ride out a price recovery.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CCA (COGECO CABLE INC)
2. TSX:CGO (Cogeco Inc.)
3. TSX:DII.B (Dorel Industries Inc.)
4. TSX:EFN (Element Fleet Management Corp.)

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