Should Contrarian Investors Buy These 3 Troubled Stocks?

Description

Contrarian investors are searching for troubled stocks that could offer a shot at some nice gains. Finding the right names at the right price, however, isn't always easy.

Let's take a look at three struggling stocks that are getting some attention these days.

Baytex Energy (TSX:BTE)(NYSE:BTE)

Baytex traded for more than $45 four years ago and paid a very attractive dividend. Today, the dividend is history, and investors can pick up the stock for $4 per share.

An ill-timed acquisition saddled the company with an ongoing burden of debt and set the stage for the crash. Baytex has done a good job of staying alive, but the challenged balance sheet is one reason shareholders haven't seen much upside as a result of the surge in oil prices over the past year.

The company is working through a planned merger with **Raging River Exploration** that will arguably create a strong company that is better capitalized, but the overall situation is still cloudy unless oil prices can muster a significant recovery, especially the volatile Western Canadian Select (WCS) benchmark.

Why?

The new company will have 34% of its liquids production based on the WCS heavy oil benchmark. WCS trades at a discount to WTI, and the gap has broadened significantly in recent weeks in combination with weaker WTI prices. As a result, Baytex is back down to $4 per share. It was above $6 in May.

If you think new pipelines will eventually allow WCS to trade closer to WTI, and you are of the opinion that WTI oil is headed to US$100 rather than back to US$50, Baytex might be an attractive contrarian bet, but that's a risky call to make.

Corus Entertainment (TSX:CJR.B)

Corus also trades at $4 and has a significantly smaller dividend than it did coming into 2018. The stock has taken a major hit amid the struggles the media sector faces in competing with streaming services. Revenues are falling in the radio and TV segments, and former owner **Shaw Communications** is said to be shopping its large stake in the company.

Despite the difficult market conditions, value investors look at the attractive cash flow and see an opportunity for a white knight to come in and save the day. A sale to private equity interests might occur, but investors shouldn't expect to see a bidding war erupt between the other communications players. They are probably interested, but it's unlikely the government would allow **BCE** or **Rogers** to acquire Corus. In fact, Corus tried to sell some French-language assets to BCE earlier this year, but the companies had to abandon the deal due to objections by the Competition Bureau.

There might be some upside on a takeout, but it is tough to see how Corus is going to solve the problem of falling ad revenues.

Aimia (TSX:AIM)

Aimia is a perfect example of how much upside a takeover bid can produce when the market has pretty much left a stock for dead.

The owner of the Aeroplan point program has been on a downward slide for the past four years, dropping from close to $20 in early 2014 to a 2018 low of $1.50. The stock took a major hit in 2017 when **Air Canada** said it was cutting ties with Aeroplan to start its own loyalty program. Recently, Air Canada and a few of the banks made an offer to buy Aimia. The offer was rebuffed, but Aimia has held its gains, popping from about $2.50 to $4 per share. The market is either anticipating a sweetened bid from Air Canada or a competing offer from another group.

Recent partner deals announced with **Porter Airlines** and **Air Transat** are also helping, but I would be careful chasing Aimia right now.

The bottom line

Sometimes a beaten-up stock can deliver huge gains, and all three of these companies could certainly surge off their current levels under the right conditions. That said, I would look for other opportunities today.

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2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CJR.B (Corus Entertainment Inc.)

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