Companies Have Been Wildly Punished: How to Profit From it!

Description

When considering past recessions and the leading indicators that led to them, investors can quote Yogi Berra fairly accurately: “It’s déjà vu all over again.”

After close to a decade since the last recession, the writing is clearly on the wall for yet another downturn. Unemployment is at an all-time low, and corporate profits are starting to stagnate, as investors demand more and more on each earnings call. In spite of these higher expectations, it is becoming more difficult to “squeeze blood from a stone” for many companies.

In many cases, those who’ve needed to purchase a product or service have done so, as the average person has been gainfully employed on an ongoing basis for a lengthy amount of time. The past few weeks has not been good to many investors, as a number of companies have been unnecessarily punished for missing earnings estimates.

One of the biggest declines has been with **AutoCanada** (TSX:ACQ), which not only fell by close to 25% on earnings, but continued the decline in the days that followed. At a current price of $11, investors will receive a generous yield of more than 3.5%, which is easily covered by the used-car business done by the company. Although this name is in the high-risk, high-reward basket, the truth is that cars will be sold for a very long time to come. The only question is, who will do the selling?

Another name that has shrunk its footprint is none other than **High Liner Foods** (TSX:HLF), which declined by close to 15% on earnings. In spite of being in a difficult industry, the long-term performance of this name has been very good. Once the price competition between firms gets worked out, margins are expected to rise, and the dividend will once again be safe. A cut in the payments to shareholders would not be the worst thing, as the company would have much more leeway to get things done.

The last name on the list is **Home Capital Group** (TSX:HCG), which has performed extremely well over the past 12 months. In spite of missing earnings by only a penny, shares declined by more than 7% during the day that followed. For investors seeking a bargain, the company reported earnings of $0.80 per share throughout the first half of the year. On an annualized basis, that would translate to a price-to-earnings ratio of no more than nine times!

With tangible book value exceeding $23 per share, it is highly likely that any catalyst will send shares much higher. Although a buyout from major shareholder Warren Buffett would be nice, the re-initiation of a dividend (or share buyback) would easily get the job done, sending shares to the $20 mark or higher.

CATEGORY

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2. TSX:HCG (Home Capital Group)
3. TSX:HLF (High Liner Foods Incorporated)

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Date
2025/06/28
Date Created
2018/08/17
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