3 Beaten-Down Stocks With the Strength to Spring Back

Description

Bay Street can't seem to get any momentum going. While Canada's main market ended last week on a slightly positive note, the **S&P/TSX Composite Index** still managed to shed about 130 points (or 0.5%) over the past five days.

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Declines in energy, materials, and healthcare stocks weighed heavily on the averages, while NAFTA-related worries lingered throughout the week.

Let's take a look at a few of last week's biggest losers and try to figure out if there's some value to be had.

Pot plunge

Weed stocks were hit especially hard last week, with the likes of **Canopy Growth Corp.** (TSX:WEED)(NYSE:CGC) and **Cronos Group** (TSX:CRON)(Nasdaq:CRON), falling 9% and 14%, respectively. The losses came on reports that Canadians who work in the pot industry — as well as those who invest in it — risk a lifetime ban on travel to the U.S.

On Friday, weed stocks did see a decent a rebound from those losses, but it's clear that the pot enthusiasm has tempered a touch — at least for now. As it stands, Canopy shares are off 17% from their 52-week highs, while Cronos is off 23% from its 52-week highs.

If you're a long-term oriented investor and have been waiting for a better entry point on pot stocks, this could be your window.

Dollar daze

Dollarama Inc. (TSX:DOL) also had a very bad week, driven mainly by a massive 20% plunge on Thursday — its biggest one-day decline in 2018.

The discount retailer's EPS of $0.43 and sales of $868.5 million both missed analyst expectations. Moreover, Dollarama's same-store sales increased just 2.6% — well below estimates of a 5.3% rise.

On the bright side, gross margins increased slightly on cost improvements.

Earlier this month, I wrote that Dollarama is a solid company, and with enough of a pullback, the shares will likely become attractive once again. I don't know if this 20% haircut is enough, but given Dollarama's forward P/E of 24 — close to its three-year lows — value investors can at least start paying attention.

Rooting for a rebound

Our final stock is **Roots Corporation** (TSX:ROOT), which saw its shares plunge a whopping 29% to a new all-time low last week.

Like Dollarama, the decline was triggered by highly disappointing quarterly results. In Q2, the apparel retailer posted a loss of $4.1 million as sales increased just 3.6% to $60 million. Management blamed the lack of growth on a tough Q2 2017 comparable, in which the company benefited from one-time sales related to Canada 150.

Given management's reasoning, it's fair to say that comparisons will get easier moving forward. With Roots shares now off more than 50% from their 52-week highs and trading at a paltry forward P/E of 7.0, it might be a good time to bet on it, too.

The bottom line

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There you have it, Fools: four stocks that took a pretty big beating last week.

Don't view them as formal recommendations, but rather as a starting point for further research. Trying to catch falling knives can be hazardous to your wealth, so it's crucial to do your due diligence.

Fool on.

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2. NASDAQ:CRON (Cronos Group)
3. TSX:CRON (Cronos Group)
4. TSX:DOL (Dollarama Inc.)
5. TSX:ROOT (Roots Corporation)
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