2 Stocks That Are Great Contrarian Buys Today

Description

If you go with the grain and buy stocks that are already doing well, then your returns will often be a bit limited.

A good example is Bitcoin, particularly where investors got in at more than US$15,000 last year and likely suffered big losses afterward. The longer that the hype lasts and the later you buy, the greater the odds are that you'll end up paying a hefty premium.

For a contrarian, however, you're essentially looking at for stocks that are seemingly hopeless, at least in the near term. Canadian oil and gas stocks are perhaps the best examples.

Even though oil prices have been stronger this year than they were a year ago, they haven't done much for Canada as Western Canada Select prices remain very low and are trading at a big discount to U.S. oil.

The result has been a very soft performance by many oil and gas stocks. If and when we see that reversal is anyone's guess, but that has created some opportunities for investors looking for good deals as a result of this.

While there's definitely going to be more risk involved with a strategy like this, the potential returns could also be significant if the tide changes.

Cenovus Energy (TSX:CVE)(NYSE:CVE) dropped below $10 this week and is getting closer and closer to the all-time low it hit a year ago. The stock is trading well below its book value, and so investors that buy today will be getting a good discount.

The downside is that the company has failed to post a profit in four of its last five quarters, although it has been able to generate free cash flow during that time.

It's a risky buy no matter how you look at it, but with the company being one of the top ones in the industry, it could be a strategic bet if a turnaround happens.

Enbridge (TSX:ENB)(NYSE:ENB) is probably a safer bet than Cenovus, but it too is facing some big headwinds in the industry. Pipelines being stalled or rejected have made the outlook for the industry particularly weak, and a 10% decline for the stock since the start of the year doesn't seem all that big given all of the adversity.

Unlike Cenovus, Enbridge's stock is trading above book value, but at a price-to-book ratio of 1.5, it's still very modestly priced. And while it has posted a profit in each of the past five reporting periods, its most recent results proved a bit more challenging with the company just narrowly being able to stay in the black.

Enbridge has done very well over the years with sales rising, despite the downturn in the industry, as its top line has increased by 35% since 2013.

This is a case where the underlying company is very strong and the industry is weighing it down. Enbridge has been a good buy for some time, but investors have simply avoided the industry.

There's a lot of upside for the stock if we see the industry turn things around, which today is still a big if.

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