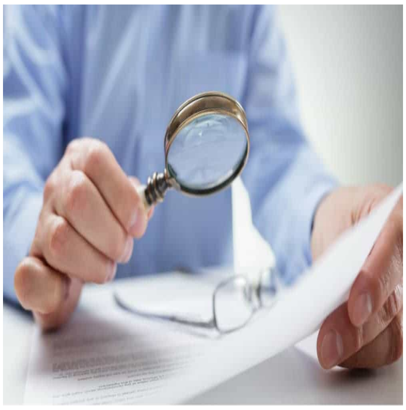

Value Investors: These 3 Unloved Stocks Could Double (or More!)

Description

When executed properly, deep value investing can be incredibly profitable.

It's a little different than your garden-variety value investing, which sees an investor take positions in great companies that happen to be a little unloved at the moment. Value investing's odd cousin requires intestinal fortitude, as one bets on companies other investors claim are on a one-way ticket to bankruptcy.

How can deep value investors tell the difference between a value trap and a great opportunity? That's the important question. Some things to look for are a solid balance sheet, a plan to transform the company, and assets cheap enough to be incredibly enticing.

Deep value investing isn't easy, but the results can be incredibly lucrative. These stocks can easily double, triple, or even more off their lows, soaring as investors fall in love with the turnaround plan.

Here are three such stocks all trading within shouting distance of all-time lows on the TSX.

Corus Entertainment

Corus Entertainment Inc. (TSX:CJR.B) shares have fallen off a cliff thus far in 2018, falling nearly 60%. And that was after a big fall in 2015, too. In total, Corus shares are down 80% in the last five years.

Ultimately, the big fall lately is because investors are disappointed with the company's bet on Canadian cable channels. It seems like every quarter, Corus tells investors the television advertising market continues to be weak as brands shift more of their marketing spend onto various digital platforms.

But Corus gushes free cash flow. It generated $348 million in free cash flow in its fiscal 2018. The company has a market cap of $1 billion, putting shares at less than three times free cash flow, a ridiculously low valuation.

Corus is also taking steps to get its bloated balance sheet back into shape. It slashed its monthly dividend by approximately 80%, a move that will free up cash to put towards the debt.

Baytex

The **Baytex Energy Corp** (TSX:BTE)(NYSE:BTE) story is a relatively simple one. When energy recovers, Baytex shares should soar.

Baytex, like its peers, is incredibly leveraged to the price of crude oil. It can likely struggle along with crude in the $50/barrel range, as it has a lot of low-cost production coming from the Eagle Ford area in Texas. But at $70-$80 per barrel, Baytex can really start generating some nice cash flow. Good things will happen with this excess cash, including investing in increased production and paying down some of its ample debt.

Back in May, when investors were far more bullish on the energy market than today, Baytex shares were over $6 each. That's a 150% return from today's levels. Remember, oil was only $70 per barrel back then. We don't need $100 oil for Baytex shares to do quite well.

AutoCanada

Although shares are up smartly over the last month, 2018 has been a sad year for **AutoCanada Inc.** (TSX:ACQ) shareholders. The car dealership owner's stock is down 43% thus far in 2018 and has declined some 90% from 2014's all-time highs.

Like Baytex, AutoCanada is a play on a recovering Alberta. Approximately 30% of the company's operating profits come from wild rose country, down significantly versus a few years ago. The company has spent the last few years diversifying away from Alberta, buying dealerships in both Eastern Canada and the United States.

Unfortunately, expansion has left the balance sheet stretched. Management remains committed to getting debt under control, even going as far as entering into sale/leaseback transactions for some of its real estate. It makes sense for AutoCanada to focus less on owning the underlying real estate, so look for it to enter into more of these deals to reduce debt.

The company is cheap on the price-to-book value perspective — it trades at just 0.8x its stated book value — and on a price-to-earnings perspective. Analysts predict the company will earn $1.59 per share in 2019, putting shares at just over 8x forward earnings.

Foolish takeaway

Stocks like Corus, Baytex, and AutoCanada aren't for the faint of heart. They're all quite risky. But if they manage to recover, the rewards could be incredible.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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TICKERS GLOBAL

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

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