Uncover the Value in the Carnage and Buy Low

Description

There is a bright side to recent market carnage even though it doesn't feel like that right now.

But if your investment portfolio has some cash on the sidelines, here lies the opportunity.

While putting your money to work in these volatile times of sharp market declines seems to require nerves of steel, take comfort in history. Look back to the 2008 crisis, and zero in on those high-quality stocks that got hit hard and provided investors with attractive entry points and ultimately tons of money flowing their way.

Here I will discuss three companies that are ranking high on my value screen, which screens for strong cash flow generation, low valuations, and strong returns.

Labrador Iron Ore Royalty Corporation (TSX:LIF.UN)

Labrador Iron Ore Royalty first started ranking high on my screening list because of its valuation and strong cash flows back in 2015, when it was trading at roughly $13. And it had a dividend yield of close to 10%.

The iron ore industry was not booming and iron ore prices had been decimated, with most experts saying that increasing supply would keep this commodity going lower for the foreseeable future.

Given that it receives royalty from high grade iron ore production, it seemed like a low risk, high-quality company to gain exposure to the commodity. If growth in China were to remain strong, then iron ore would recover.

Three years and many dividend payments later, Labrador Iron Ore's stock price has more than doubled, and investors have benefitted not only from its regular dividend payments but also from special dividend payments.

The company has increased its dividend several times since then, and has paid special dividends that have amounted to $1.65 per share in 2017.

So all told, shareholders have received dividends of $2.65 in 2017.

But today, the dividend yield on the stock is currently 3.86%, a far cry from the almost 10% dividend yield in 2015.

The iron ore industry is a very cyclical one, and things are cooling, but is the value still there?

With the company's latest two quarters' results showing increased costs, lower than expected production, and lower realized iron ore prices, the stock is not as attractive as it was, and I think that upside from here is more limited although the dividend is reliable.

Nuvista Energy Ltd. (TSX:NVA)

Nuvista has gotten killed year-to-date, and has lost more than half of its value.

With a 60% natural gas weighting, we can easily see why.

But natural gas prices have been rising dramatically, so why isn't Nuvista stock?

I guess the answer lies in the market's long term negative view of the commodity, but assuming they are wrong, Nuvista has big upside.

And for its part, Nuvista is expecting strong production growth of almost 20% this year.

And with its flexible balance sheet that has a reasonable level of debt (20% debt to total capitalization ratio), the company is able to continue to withstand challenging times and grow its production well into the future.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:LIF (Labrador Iron Ore Royalty Corporation)
2. TSX:NVA (NuVista Energy Ltd.)

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