



TSX Index Dogs: Will These 3 2018 Duds Outperform in 2019?

Description

Many investors subscribe to a simple investing methodology: what goes down will inevitably go back up again. In fact, the time to buy is when things are looking the worst.

It's certainly not all sunshine and rainbows for these three beleaguered TSX index stocks. They're all down substantially in 2018, and many investors have written them off for dead. But there's also a lot of underlying value there. Let's take a closer look.

Corus Entertainment

2018 might go down as the worst year ever for **Corus Entertainment** ([TSX:CJR.B](#)). Shares are down more than 60% thus far in the year, as investors shunned all forms of traditional media. The dividend cut sure didn't help either.

But underneath all that bad news is a company that gushes free cash flow, even as the advertising market on its television stations continues to be tepid. Corus has a market cap of just under \$1 billion, but it did \$349 million worth of free cash flow during its last fiscal year. This cements it as one of the cheapest stocks on the whole TSX index on a price-to-free cash flow basis.

The company's main near-term concern should be paying down some of its massive debt. Corus's balance sheet ballooned when it acquired **Shaw Communication's** media business in 2016. Although some of that debt has been paid off, the company still owes nearly \$2 billion to bondholders. That's simply too much.

Rumours have been circulating for months that private equity may be interested in acquiring Corus. It is the perfect target because it has assets that generate a lot of free cash flow while not really benefiting from a public listing. Private equity could acquire the company, clean up the balance sheet, and then re-list it on the TSX when conditions are a little more favorable.

AltaGas

AltaGas ([TSX:ALA](#)) had a year very much like Corus. It also bloated its balance sheet with too much debt from a big acquisition and was forced to cut its dividend to free up cash.

And also like Corus, the market is focused on short-term problems rather than the long-term picture. AltaGas projects it will generate approximately \$3.25 per share in funds from operations in 2019. Compare that to the share price, which is currently right around \$12. That's an incredibly cheap price-to-funds from operations ratio.

AltaGas has a number of things it can do over the next year to clean up the balance sheet. It plans to spin off a stake in its Canadian operations, which should raise more than \$1 billion. And it still has a number of non-core assets to sell. Together, these moves should free up somewhere between \$2 and \$3 billion.

And even after its dividend cut, AltaGas still pays a generous 8% dividend.

Bombardier

I'm the first to admit **Bombardier** ([TSX:BBD.B](#)) is a bit of a mess. The company is awash in debt and may need another government bailout to continue as a going concern.

But there's also terrific upside potential if management can pull the company out of its latest funk. The right steps are being taken, too. A bloated payroll is being reduced, and it has committed to other cost cuts. Non-core divisions are also being sold off. All of these moves should free up cash that can be committed to paying off debt.

I'd recommend Bombardier go one step further and focus on its train business. That's the kind of dependable industry investors want to own, and I'd argue it has better long-term potential than the aerospace division.

Just small pieces of good news could send Bombardier shares soaring. That's how levered the company's equity is today.

The bottom line

You likely noticed a common theme with these companies. They all have a debt problem.

Obviously, large amounts of debt create a risk. But it also creates a huge opportunity for equity holders. If the company can successfully manage the debt and improve the underlying business, shares can easily go up 100% or even more. That's the opportunity investors are seeing today with these three stocks.

CATEGORY

1. Dividend Stocks

2. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:BBD.B (Bombardier)
3. TSX:CJR.B (Corus Entertainment Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/26

Date Created

2018/12/25

Author

nelsonpsmith

default watermark

default watermark