3 Top Contrarian Stocks on the TSX Index

Description

Hi there, Fools. I'm back again to highlight three stocks on the TSX Index that have slumped over the past month. Why? Because the greatest stock market wealth is made by buying solid companies when no one else wants them; when they're being frowned upon by Bay Street; or when they're selling below intrinsic value.

As Warren Buffett famously advises, "Be fearful when others are greedy and greedy when others are fearful."

Without further ado, let's get to it.

Seeing stars

Kicking off our list is **The Stars Group** (TSX:TSGI)(Nasdaq:TSG), which has fallen 13% over the past month. Shares of the gambling technology company are now off a whopping 49% over the past six months versus a loss of 9% for the **S&P/TSX Capped Consumer Discretionary Index**.

Mr. Market continues to be concerned about the company's negative earnings per share trends, as well as the risk of increased regulatory restrictions on all internet gambling.

On the bullish side, Stars remains a dominant player in the online poker space and solid cash flow producer. Over the past five years, Stars' trailing 12-month operating cash flow has grown 152% and currently sits at $641.5 million.

With a cheapish forward P/E of 7.6, Stars' growth opportunities within sports betting and casinos — while still uncertain — might be worth wagering on.

Natural choice

Next up, we have **Encana Corporation** (TSX:ECA)(NYSE:ECA), whose shares are down 7% over the past month. The natural gas and oil producer is now off 54% over the past six months versus a loss of 28% for the **S&P/TSX Capped Energy Index**.

Mr. Market continues to have concerns about Encana's recent purchase of Newfield Exploration given that oil prices remain soft. After all, Encana needed to assume about $2.2 billion in debt the deal, so it's easy to see the deal as a clear strategic misstep by management.

That said, Encana now trades at some pretty juicy price multiples, including a forward P/E of 6.3, EV/EBITDA ratio of 6.4, and a price-to-book of 1.2. The stock is definitely volatile — beta of more than three — but the long-term downside might be limited at this point.

Record depths

Rounding out our list is **SNC-Lavalin** (TSX:SNC), which has fallen a massive 29% over the past month. Shares of the embattled engineering firm are now off 36% over the past six months versus a loss of 8% for the **S&P/TSX Capped Industrials Index**.

SNC plunged last month after slashing its near-term forecasts due to political tensions between Canada and Saudi Arabia, as well as delays at Codelco, its Chilean mining project.

On Monday, management cut its profit forecast yet again, this time by 40%, and halted all bidding on future mining projects. Once again, Codelco was the main culprit.

"Significant of the current write-downs on the project should not be considered a permanent write-off until the arbitration process is concluded," SNC wrote in the news release.

SNC's operational, legal, and diplomatic risks are probably too great for conservative Fools. But with the stock at 10-year lows, less risk-averse short-term investors might want to take a peek.

The bottom line

There you have it, Fools: three stocks that have pulled back sharply over the past month.

They aren't formal recommendations. But they're a good starting point for more research. Slumping stocks can keep sliding for a prolonged period, so lots of homework is still necessary.

Fool on.

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