3 Unloved Stocks for Contrarian Investors

Description

At times, the market is tough on companies. There are many reasons for this. Poor historical performance, existing headwinds and poor guidance, are but a few reasons why investors stay clear of certain stocks. There are times however, when it pays to be a contrarian investor.

As Buffet once famously said "buy when others are fearful,"– within reason, of course.

The last thing you want to do is buy a company just because it decreased in price and it looks cheap. Analyzing a company's fundamentals is still a critical component of buying stocks. This will help you avoid "catching a falling knife." With that in mind, here are three companies that could be attractive plays for the contrarian investor.

A top retail stock

Canadian Tire (TSX:CTC.A) is one of Canada's most iconic retail brands. In fact, I would argue it is Canada's best retail brand. You'd be hard pressed to find a Canadian who hasn't visited a Canadian Tire store at least once in the past year.

The company's stock price struggled in 2018, losing approximately 9% of its value. In 2019, while the rest of the TSX has enjoyed a nice rebound, Canadian Tire has remained flat. For value investors, this is the opportune time to pick up the stock. Trading at a price-to-earnings of 13.49 and a forward P/E of only 10.16, Canadian Tire hasn't been this cheap in years.

The company is fundamentally strong. In 2018, it grew revenue by 5.9%, comparable same store sales by 2.2% and earnings per share jumped 12% year over year. Over the next two years, Canadian Tire is expected to grow earnings by high single-digits. Oh, and it is a Canadian Dividend Aristocrat raising its dividend by double digits.

A top auto parts stock

The auto parts industry is highly cyclical and has been under pressure for the past couple of years. All the stocks in the sector could be considered contrarian investments. My favourite however, is **Magna International** (TSX:MG)(NYSE:MGA). Despite all the headwinds the company has faced over the past year, the company continues to post strong growth.

In 2018, Magna shattered financial records across the board. It achieved record sales (up 12% YOY), earnings per share (+13%) and cash from operations (+12%). It is also a Canadian Dividend Aristocrat and it last raised dividends by 11%. Next year, analysts are expecting earnings growth in the low teens. Does this sound like a falling knife?

A value bank stock

Perhaps the most unloved stock on this list is **Laurentian Bank** (TSX:LB). Laurentian had a very tough 2018, as it was embroiled in a mortgage issue and had the looming threat of an impending strike. It is North America's only bank with a unionized work force. To make matters worse, the company has been undergoing a significant digital transformation that has required significant investment.

It has missed analysts' estimates in every quarter last year, and investors are quickly losing confidence in the company. There are however, some recent encouraging developments. For starters, in early March it finally settled on a new bargaining agreement with the union; this takes a considerable amount of uncertainty off the table. Secondly, the mortgage issue it experience in 2018 has been put behind them and it was not a wide-spread systematic issue.

It still has plenty of work to do as it strives to achieve the same profitability level as Canada's big banks (a 2022 strategic goal); however, the company appears to be righting the ship.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:LB (Laurentian Bank of Canada)
4. TSX:MG (Magna International Inc.)

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Date
2025/08/24
Date Created
2019/03/23
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