2 Top Stocks Under $5: Which Should You Buy?

Description

While global stock markets continue higher — albeit with increased volatility — some stocks are staying low priced.

Having a low share price doesn't necessarily mean it has a cheap valuation, but it can often point you to under-the-radar stocks that the market is ignoring.

Take **Bombardier** (TSX:BBD.B) and **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) for example. Both have share prices of around $5 or less, yet have multi-billion-dollar market caps.

At one time, both Bombardier and Crescent Point stock traded 1,000% higher than their current share price. Which beaten-down company is a better buy today?

Tough times for industrial stocks

Bombardier stock surpassed $5 per share as recently as last summer. Today, shares have sunk yet again back to roughly $2.

What's Bombardier's problem?

Take a look at fellow industrial stock **General Electric Company** (NYSE:GE) and you'll understand what's happening.

In 2016, General Electric shares surpassed $30. Today, they're down to just $10.

The reasons for the fall are multi-fold. While the company is facing difficulties with its debt load, finance business, and pension obligations, the biggest weakness today is the fact that it's so capital intensive.

General Electric's power business is a perfect example. On May 15, CFO Jamie Miller said the company will experience "very significant negative cash flow" from its core power plant business this year. A turnaround isn't expected for at least three years.

Building large, expensive infrastructure these days simply requires too much capital and comes with huge delay and cost-overrun risks.

Bombardier's business relies on building similar projects like airplanes, railroads, and energy facilities. It's facing the same risks and difficulties as General Electric.

Bombardier has consistently faced mounting issues throughout nearly every operating segment. The struggle isn't new: Bombardier's stock price remains below 1995 levels.

If the business hasn't improved over the last 25 years, odds are that any relief will be temporary. Again and again, Bombardier has proven a terrible buy-and-hold investment.

Take a calculated risk

Bombardier stock has plenty of risk but simply not enough reward. Crescent Point stock, however, is both high risk *and* high reward.

Today, Crescent Point stock is roughly $5 per share, resulting in a $2.9 billion market cap. In 2011, shares were as high as $50 apiece. Those days are long gone, but there's reason for hope.

When oil prices collapsed in 2014, Crescent Point went into a free fall. Sales sank, profitability disappeared, and the company was forced to sell assets at fire-sale prices to pay off debt. The company's once impressive dividend vanished.

These days, most investors have forgotten about Crescent Point. The stock trades close to a 15-year low. But a turnaround could be just around the corner.

First, the company's balance sheet is no longer a wreck. Less than $100 million in debt is due this year, and $1.7 billion in additional liquidity is still available.

Second, the company anticipates being free cash flow *positive* this year. At current prices, Crescent Point should generate around $600 million in excess cash flow — roughly 20% of its current market cap.

Lastly, management is betting on itself by repurchasing stock. According to the company's net asset value estimates, Crescent Point stock has a true market value between $13 and $18 per share, making repurchases theoretically very valuable.

So far, the company has authorized a buyback plan worth up to 7% of the entire company, or roughly 38 million shares.

As long as the shares trade at a discount to their underlying value, expect management to devote resources to buying back stock. On the latest conference call, management specifically highlighted the “potential for additional share repurchases” as its financial position improves.

Crescent Point is still at the whims of oil prices, but it looks to be a contrarian bet on undervalued assets. Bombardier, for comparison, has no such value catalysts.

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