



Could These Two Stocks Under \$5 Double by 2020?

Description

Contrarian investors are always searching for troubled stocks that could deliver significant gains on an improvement in market conditions, a takeover, or a shift in sentiment.

Let's take a look at two stocks trading below \$5 to see if they deserve to be on your [buy list](#).

Baytex Energy ([TSX:BTE](#))(NYSE:BTE)

Baytex is coming up to the five-year anniversary of a major event in the company's history. At the height of the oil market in 2014 Baytex closed its \$2.8 billion deal to acquire Aurora Oil and Gas. The purchase gave Baytex a foothold in the attractive Eagle Ford shale play in Texas and was supposed to be a catalyst for growth.

The board raised the [dividend](#) by 9% on the assumption cash flow would ramp up in the following months, but things didn't work out as planned. When the deal closed, WTI oil was US\$100 per barrel and Baytex traded for more than \$48 per share. Unfortunately, the price of oil subsequently fell off a cliff and six months later Baytex was a \$15 stock.

At the time of writing Baytex trades at \$2.60 per share, up a solid 30% from the 2019 low, but still reflecting the balance sheet challenges. While debt remains a concern, the company is finally generating enough cash flow to chip away at the loans while funding its capital program.

If oil WTI oil breaks above US\$70 per barrel in the next few months, this stock could quickly retest \$5 or go even higher.

Bombardier ([TSX:BBD.B](#))

Bombardier's woes are well known to investors. Every time management says the company is getting its turnaround efforts on track, it seems to follow with another disappointing announcement that sends the stock into a tailspin.

The most recent example is the reduction of the 2019 revenue target by US\$1 billion due to ongoing production issues in the train group and delivery delays on some planes.

Bombardier's share price had recovered from a low near \$0.80 per share in 2016 to above \$5.40 last summer, so there's the potential for a big move in the stock despite the track record of disappointment.

Bombardier currently trades for \$2.10 per share at writing and fetched \$2.90 a month ago. As such, investors should keep the volatility in mind when evaluating the stock.

Is one a better contrarian bet?

Baytex and Bombardier continue to carry risks. The share prices can go through significant moves on a percentage basis in a very short period, so I would keep any contrarian bets small.

However, if you have a contrarian investing style and are willing to ride out the volatility, I would probably make Baytex the first choice. Oil prices could get a big boost in the next few months if ongoing tensions between the United States and Iran escalate. At the same time, the Eagle Ford assets remain attractive, and Baytex could become a takeover target.

CATEGORY

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TICKERS GLOBAL

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2. TSX:BTE (Baytex Energy Corp.)

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