This Beaten-Down Stock Is Up 35% This Year: Should You Buy?

Description

Any major uptick in a stock deserves a closer look, especially if that stock has been consistently declining for several years and is now up by more than a third, as such a move could indicate a turnaround. That's exactly what happened to former marketing giant **Yellow Pages** (TSX:Y).

Now, most millennials would have absolutely no idea what the Yellow Pages were, and most older investors would be surprised to learn that the company is still around, much less publicly traded. But the company's management has been desperately trying to turn the ship around and evolve the business model for the digital era.

Over the past five years, the company has shed a number of its core assets, unlocking millions in cash and acquiring digital marketing talent to focus on offering services to a niche audience.

According to the company's website, YP services now include digital marketing, content syndication, social media management, and website fulfillment for small and medium-sized enterprises (SMEs) across Canada. In other words, the Yellow Pages is now a digital marketing agency. It's a heroic attempt at salvaging a sinking ship by adopting new technology.

To achieve this pivot, the company had to cut back on spending and debt on a colossal scale. Operational expenses were cut by 35% over the past year alone, and after completing principal repayments of $144.7 million on Senior Secured Notes, management cut the debt burden by half. Net debt is now roughly equal to adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA).

These adjustments convinced **National Bank** to raise its rating on YP's stock from "sector perform" to "outperform" in February of this year. The shift in fundamentals and market sentiment helped YP meet the price target ($8.5) earlier this month. So far this year, the stock is up by 34%.

Contrarian investors who bought at the start of 2019 are probably pretty satisfied with their investment, but that doesn't change the fact that long-term investors have seen their wealth absolutely decimated and potential new investors face a bleak future.

The recent spurt doesn't cover the 70% loss that investors have endured over the past five years. The company's management failed to realize the paradigm shift in the marketing industry and was slow to adapt its business model. Legacy assets dragged the company down, while search engines, e-commerce sites, mobile apps, and social media platforms transformed the landscape.

Now, YP's new business model faces intense competition from both technology giants and start-up digital marketing agencies with younger, more experienced talent. It doesn't help that the Yellow Pages brand has itself has become a liability.

Bottom line

A lucky handful of investors recognized the fact that YP's stock was probably oversold and benefited from the recent bounce. However, the company's prospects are as bleak as ever, and investors shouldn't hold their breath for similar capital appreciation in the future.

If you hold the stock, it might be time to cash out. If you're looking for a contrarian bet on a beaten-down asset poised for a turnaround, you should probably look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:Y (Yellow Pages Limited)

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/25
Date Created
2019/06/24
Author
vraisinghani