2 Value Stocks That Have Triple-Digit Upside

Description

The stock market is enjoying an unprecedented bull run. This makes it very difficult for value investors. Markets are trading near all-time highs, and it takes a some digging to find stocks that are on sale. There is one industry, however, that is chock-full of discounts: oil and gas.

The oil and gas industry has been in negative territory over the past few months, and its 8.97% year-to-date return trails the 16.86% gains posted by the TSX Composite Index. The hardest-hit companies are those that have high exposure to natural gas.

Why? The price of natural gas has fallen off a cliff. After hitting a 52-week high near $5 MMBtu in November of last year, the price has crashed and been on a steady downtrend ever since. As of writing, it is trading at $2.257 MMBtu, which is near a 52-week low. To put the price weakness into perspective, it has only been this cheap twice in the past 10 years (2012 and 2016).

Whereas bears are heeding caution, bulls know that this might be the best time to start a position in some of the most undervalued stocks on the index. For your consideration, here are two stocks that make the perfect contrarian buy.

Encana

Since the start of the year, **Encana's** (TSX:ECA)(NYSE:ECA) share price has lost 17% of its value. Trading near 52-week lows, today is the perfect time to either add to or start a new position. It is trading well below historical averages and at a 30% discount to book value.

Despite commodity price weakness, Encana is still expected to grow earnings at a double-digit pace (+12.48%) over the next five years. Encana is also targeting 15% liquids production growth, and it expects cash flows to jump by 300% and margins to double over the same period. Let that sink in for a moment.

Given these significant growth targets, Encana is ridiculously cheap, as it trades at only 5.22 times forward earnings. Management is also taking advantage of the steep price discount and has already bought back 10% of its shares outstanding in 2019.

NuVista Energy

Arguably the hardest-hit company in the sector, **NuVista Energy** (TSX:NVA) is down 40% this year. The massive drop is unjustified. Although natural gas accounts for approximately 60% of energy production, only 18% of its natural gas volumes are exposed to spot prices. The rest is hedged, which enables the company to post healthy adjusted fund flows. Fund flows grew by 13% in the first quarter of 2019.

NuVista has a clear path to more than double production over the next five years and aims to achieve this goal by growing production at a 10-15% annual rate. The best part? It is entirely self-funded through internal cash flows. Management expects production volumes and adjusted funds flow to trend higher throughout 2019.

This oil and gas company is trading at only 6.92 times forward earnings and at less than half (0.42) book value. Analysts have a one-year price target of $7.30 per share, which implies 160% upside. Even the lowest target on the street ($4.50) points to gains of 75%. At current prices, the reward potential far outweighs any further risk of a prolonged downtrend.

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