2 Unloved Stocks That Could Double

Description

Contrarian investors are constantly searching for out-of-favour stocks that have the potential to deliver big gains once business conditions or market sentiment improves.

Buying shares in companies that nobody wants to touch comes with risk as cheap stocks can get a lot cheaper before they recover, and some eventually disappear through bankruptcy or a buyout at a much lower price than where you made the initial acquisition.

However, the upside potential can also be significant.

Let's take a look at two stocks that might be interesting picks today.

Baytex Energy

Baytex Energy (TSX:BTE)(NYSE:BTE) was a $48 stock five years ago and paid an annualized dividend of $2.88 per share. Today, the dividend is history and the stock trades for less than $2 per share.

A large acquisition made at the peak of the oil market is primarily responsible for the pain, but the assets Baytex bought in the Eagle Ford shale play in Texas back in 2014 are also the reason the stock might be an interesting bet. Recent large deals in the area suggests big producers are still interested, and Baytex might become a takeover target at a premium to the current stock price.

At the same time, a rally in WTI oil prices back toward last year's high around US$75 through the end of 2019 is possible, as OPEC appears determined to cut supplies to drive prices higher. Saudi Arabia is also planning to restart plans to privatize part of its state oil company and higher oil prices are essential for success.

Debt remains a threat to Baytex, and another slide in WTI oil back below US$40 wouldn't be good for the stock, so I wouldn't back up the truck. However, a rally to $4 could also occur on a meaningful oil rebound.

Kinross Gold

Kinross Gold (TSX:K)(NYSE:KGC) is often cited as the gold miner that made the worst acquisition in the sector's history.

The company paid US$7 billion in September 2010 to buy Red Back Mining when gold was on an upward trend. Gold peaked a year later at US$1,900 per ounce, and Kinross eventually had to write down the bulk of the Red Back acquisition due to the subsequent multi-year downturn in gold prices and disappointing performances from the assets. The Tasiast gold mine in Mauritania was supposed to be the crown jewel of the deal, but it initially didn't turn out to be as attractive as expected.

Kinross spent most of the past eight years cleaning up the balance sheet and is finally at a point where it can focus on growth, including a recent expansion at Tasiast. The mine just had its best quarter since 2011, and Kinross is on target to meet its full-year 2019 production and cost goals.

The stock traded for $20 a decade ago and eventually bottomed out around $2 in 2016. Today it is close to $5, supported by the recent surge in gold prices. If the momentum in the gold market continues, Kinross could take a run at $10.

Merger activity is picking up in the gold space, and Kinross might be a good addition for one of the majors, as new deposits are getting harder to find.

The bottom line

Baytex and Kinross still carry risks, so I wouldn't allocate a big chunk of the portfolio to these names. That said, if you are bullish on oil and gold over the next couple of years, these stocks have the potential to deliver big gains on a surge in commodity prices and a double from their current stock prices wouldn't be a surprise.

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