Contrarian Investors: Multibagger Stocks for 2020 and Beyond

Description

The energy sector has so much negativity that even the stock prices of big players have fallen a lot. **Canadian Natural Resources** stock, for example, declined by almost 30% in the past year.

If you have a big conviction of an energy turnaround and you want enormous upside, don't look at large-cap energy stocks. Instead, focus your energy (pun intended) on finding smaller caps that could be multibagger stocks. The following stocks are great candidates to start your research.

Encana

Investment-grade **Encana** (TSX:ECA)(NYSE:ECA) stock fell about two-thirds in the past 12 months.

Other than the challenges faced by the sector, Encana, specifically, had made some bad investment decisions in the past that have destroyed shareholder value, as explained by my colleague, Karen Thomas, here. Taken together, this led up to the stock's incredibly cheap valuation today.

On the bright side, Encana's profitability has turned over a new leaf lately. Cash flow generation has improved markedly from a couple of years ago. Trailing 12-month (TTM) operating cash flow was more than US$2.8 billion against roughly US$1 billion in 2017.

Moreover, the company generated TTM free cash flow of US$465 million compared to negative free cash flow of US$800 million in 2017.

At about $5.90 per share as of writing, ECA stock trades at just under six times earnings and roughly 1.6 times cash flow. The stock traded at more than $17 per share in the past year. So, any positive news can send the stock flying high.

Birchcliff

Birchcliff Energy (TSX:BIR) stock is another victim of the challenged energy sector by falling more than 50% in the past 12 months. However, the company is well run and profitable.

Cash flow generation has improved meaningfully from a couple of years ago. TTM operating cash flow was $327 million against roughly $288 million in 2017.

Moreover, the company generated TTM free cash flow of $29 million compared to negative free cash flow of $130 million in 2017.

At about $2.30 per share as of writing, Birchcliff stock trades at a cheaper valuation than many other larger-cap energy stocks because there could be a small-cap discount.

In general, investors choose to invest in large-cap and mid-cap energy companies first. Therefore, small-cap stocks, including Birchcliff, tend to trade at the largest discounts.

As a result, if investors can separate the wheat from the chaff in the energy small-cap space, they can capitalize on huge gains when the sector finally turns around.

Birchcliff stock trades at about eight times earnings and roughly 1.8 times cash flow. The stock traded at more than $5 per share in the past year. Any positive news can therefore send the stock much higher.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)

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