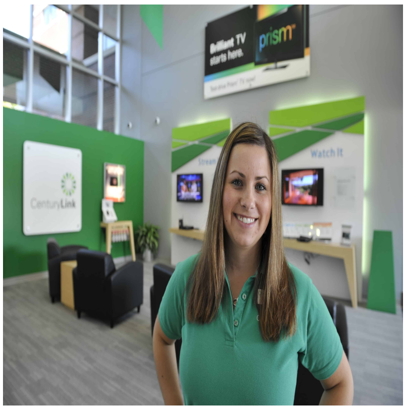

3 Top U.S. Stocks Under $20

Description

One of the first lessons in investing is that stocks with low prices are there for a reason, but it isn't always that way. There are some big gains possible with low starting points, as long as investors are willing to stomach the inevitable risks that comes with the territory.

Snap (NYSE: SNAP), **Sirius XM Holdings** (NASDAQ: SIRI), and **CenturyLink** (NYSE: CTL) all trade for stock prices in the teens or lower. They're not exactly out of favor despite the small price tags. Snapchat parent Snap has nearly tripled in value in 2019. Satellite radio monopoly Sirius XM has been one of the market's biggest winners, a 125-bagger since bottoming out a decade ago. Regional telco CenturyLink is the one stock here that has seen better days, but it makes the cut because of its chunky dividend. Let's take a closer look at all three of the top stocks trading under $20.

Snap

If you haven't been paying attention to Snap lately, you might not realize that it's no longer a joke of an investment. Snapchat's parent company hit the market in early 2017, and its first year and change of trading was marred by sluggish usage trends, weak platform monetization, and an unpopular app redesign. We've got a more resilient Snap to buy into now.

Revenue soared 48% in Snap's latest quarter. There are now 203 million daily active Snapchat users. A year ago, the common fear was that the platform had peaked after back-to-back quarters of sequential declines in daily active users. We're now at record levels, with high-water marks set for all three of the geographical regions that Snap uses in breaking down its quarterly performance.

Snap's guidance for the quarter that ends later this month calls for 38% to 46% year-over-year growth, but let's not put the revenue acceleration streak to bed just yet. Snap has been offering up guidance in recent quarters that prove refreshingly conservative by the time we hear the actual numbers.

The narrative is clearly different this time around. No one is talking about Snap being at peak Snapchat right now. New features are proving engaging to users and magnetic to marketers. Even the poorly received app update has been remedied. Profitability is still a sore subject for Snap bulls, but it's hard to bet against the comeback kid when so many of its other fundamentals have never been stronger.

Sirius XM Holdings

There's always the fear out there that satellite radio will be transitory technology. We saw this play out during the early years when Sirius and XM were separate companies, and folks used to free commercial-saddled terrestrial radio didn't want to pay a premium for their audio entertainment. We've seen the same whiffs of obsolescence in recent years, with platform worrywarts arguing that connected cars diminish the need for monthly ransoms to a company beaming content off satellite into car factory-installed receivers. The constant factor through all of this noise is that Sirius XM just keeps growing.

Sirius XM had a record 34.3 million total subscribers at the end of June. Sequential dips in member tallies are rare, and when they happen, Sirius XM typically bounces back nicely in the subsequent report. One would think that Sirius XM doesn't have any kind of pricing leverage in this climate where drivers can turn to their Bluetooth-backed smartphones to serve up music apps through their dashboard speakers, but average revenue per user has actually risen 4% over the past year.

Satellite subscriber growth has slowed as the industry matures, but earlier this year Sirius XM completed the Pandora acquisition that now makes it a major player in the streaming market. Unlike Snap, Sirius XM is consistently profitable and it uses its healthy free cash flows to buy back shares and pay out a modest but acceptable quarterly dividend.

CenturyLink

Although Sirius XM's yield of 0.8% isn't going to turn heads, the same can't be said about CenturyLink. The telco's payout rate currently clocks in at a whopping 8.4%. An important point that needs to be spelled out early on is that CenturyLink is struggling, and earlier this year, it slashed its quarterly distributions by more than half. These are challenging times forÂ independent local exchange carriers, but there are a few reasons to like CenturyLink here.

Let's start at the bottom, as in the bottom line. Analyst profit targets have actually been inching higher in recent months. Wall Street pros see CenturyLink earning $1.39 a share this year, pricing the stock at a single-digit earnings multiple but also making the first year in a long time that CenturyLink's likely profit is larger than its dividend. You have to go all the way back to 2010 to find the last time that its payout ratio wasn't above 100%.

It's hard to get excited about CenturyLink's business, and last year, it suffered top-line declines across all six of its segments. Things aren't getting much better these days, as revenue declined by more than 5% in its latest financial report.

Sirius XM is growing. Snap is growing quickly. CenturyLink may seem to be the odd man out here in the growth parade, but the dividend cut earlier this year gives it enough wiggle room to find new ways to matter while its slowly fading businesses continue to generate gobs of profitability. CenturyLink still has to prove that it can turn things around. For now, however, it stands out as a compelling buy just because the shares are so historically cheap with what is finally a dividend that's sustainable in the short run.

CATEGORY

1. Investing
2. Tech Stocks

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1. NASDAQ:SIRI (Sirius XM)
2. NYSE:SNAP (Snap Inc.)

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