Investors: 3 Dirt-Cheap Value Stocks Trading Under $5

Description

Many investors like loading up on so-called penny stocks for two simple reasons.

Firstly, these stocks represent huge upside potential. A stock moving from $1 to $2 per share doesn't seem like a big gain, but it's enough to double your money.

Secondly, a relatively small amount of money can buy what seems like a huge position. $5,000 will only buy 100 shares of a stock trading for $50 per share, but it'll buy 5,000 shares of a $1 stock. Some people really like being able to build what seems like a large position without a whole lot of cash.

No matter what camp you fall into, you'll want to check out these three penny stocks — dirt-cheap shares that offer some compelling upside potential while trading for under $5 per share. Be warned, however. These risky stocks are not for the faint of heart.

Dundee

For years now, conglomerate **Dundee** (TSX:DC.A) has been one of the cheapest stocks in Canada on a price-to-book value basis. The sum of the company's parts — which include oil, gold, wealth management, real estate, and even cattle production, among others — have consistently exceeded the share price.

There's just one problem: most of these subsidiaries just haven't performed up to expectations. Persistent losses have seen book value dwindle, taking the stock down with it. Just five years ago, Dundee shares were more than $10 each. These days, the stock barely trades above $1 per share.

Management is getting serious about creating value for shareholders, including buying back high-cost preferred shares and contemplating a share buyback on the common shares. Some of its underlying holdings — especially in the precious metals space — are rallying, too. And costs have been cut at head office, which will help the company stem losses.

As of September 30, Dundee had a book value of $4.24 per share. Shares trade hands at $1.16 each as I write this. If the stock approaches book value, there's some major upside potential here.

Medical Facilities

2019 was not a good year for **Medical Facilities** (TSX:DR). The owner of specialty surgical hospitals and ambulatory surgery centres in the United States disappointed investors, leading to a dreaded dividend cut. The stock ended the year down some 75%.

Dismal short-term results shouldn't take anything away from the company's long-term growth potential. Health care is projected to grow faster than the overall economy for the next few decades. Medical Facilities is still poised to expand, setting aside capital for new acquisitions. There are some 5,500 ambulatory surgery centres in the U.S., with the company owning just seven. Needless to say, there's some acquisition potential here.

The $4.46 stock is dirt cheap on a number of value metrics, including price-to-book value and on a price-to-cash flow perspective. If it can report some better results going forward, shares have significant upside potential.

Crescent Point

Crescent Point Energy (TSX:CPG)(NYSE:CPG) was once one of the most respected energy companies in Canada. It consistently posted excellent results, had some of the best assets in the whole sector, and paid one of the most generous dividends out there.

And then the energy sector collapsed and the company began to struggle. Big time.

The dividend was cut, and the company went from buying distressed assets to becoming a seller. Its debt became a major issue, although it looks to be under control today. Like many of its peers, Crescent Point is in a holding pattern, patiently waiting for higher energy prices. That's really the only thing that can boost shares significantly higher.

The upside potential is certainly there. Shares trade at a steep discount to book value, and even a modest recovery in crude oil would really goose the bottom line. The stock currently trades at $4.61 per share compared to more than $40 per share just five years ago.

The bottom line

Each of these companies are long-term turnaround plays, which is a risky investment strategy. There's no guarantee any of these turnaround plans will work.

But if they do, these dirt-cheap value stocks represent some major upside potential. We're talking anywhere from 100% to even 400% returns. Could your portfolio use a little of that?

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