Achieve 20% Returns With 2 Stocks in 2020

Description

What does a grocery conglomerate and a gold producer have in common? Nothing — unless you count the fact they could both yield double digit returns.

The companies I am referring to are **Kinross** (TSX:K)(NYSE:KGC) and **Metro** (TSX:MRU).

Kinross Gold Corporation

Kinross is engaged in gold mining and related activities, which includes the exploration and acquisition of gold-bearing properties, extraction and processing of gold-containing ore and reclamation of gold mining properties. Production and exploration are carried out principally in Canada, the United States, Russia, Brazil Chile, Ghana and Mauritania.

Gold has had a bad reputation for the better part of the decade, with a decline in prices from the high US$1800 an ounce in late 2011, to the trough of US$1100 in late 2015.

That said, gold prices are recovering with the latest price of US$1600 an ounce. As gold prices increase, investors in Kinross stand to benefit.

The reason why I like Kinross is its valuation. Using a precedent transaction model, that determines the value of companies based on past acquisitions of companies in the same industry, I determined that Kinross has an intrinsic value of $14.33 compared to its current share price of $5.90.

Kinross stands out to me among the other gold producers because it has very little debt relative to its revenues and is increasingly efficient, with the cost of revenue declining from $4.1 billion in fiscal 2014 to $2.6 billion in fiscal 2018.

Metro Inc.

Metro is a leading grocery and drugstore company in Canada with stores in Quebec and Ontario. Its banners include Metro, Food Basics, Adonis, Metro Pharmacy, Drug Basics and the recently acquired Jean Coutu.

The company acquired Jean Coutu in May 2018 for $4.5 billion for a combination of cash and Metro shares. The combined entity is expected to achieve revenues of $16 billion.

Based on this acquisition, I believe Metro has an intrinsic value of $148.51 per share, which is a premium to the $54.36 per share at the time of writing.

From a qualitative point of view, this increases Metro's competitiveness, putting the company on par with **Loblaw,** which owns Shoppers' Drug Mart.

The acquisitions also allows Metro and Jean-Coutu to cross-sell products, which will increase revenues. Loblaw successfully uses this strategy with its President's Choice label. Canadians can find President's Choice branded ready-to-eat meals and shelf products in Shoppers Drug Mart locations across the country.

Foolish takeaway

It's been said that gold is a hedge against a declining market and consumer staples are recession-proof, which is largely true. As the **Dow Jones Industrial Average** reaches new heights, there's an underlying sentiment of fear that can't be ignored. TFSA and RRSP investors looking for solid companies to buy and hold should consider Kinross and Metro.

As a reputable gold producer, Kinross was founded in 1993 and engages in both silver and gold production. My calculations using a precedent transaction model determine that Kinross is substantially undervalued compared to its peers.

As a grocery conglomerate, Metro is a stable choice that could deliver stellar returns. With the recent acquisition of Jean-Coutu, Metro has increased its footprint in Canada, allowing it to go head-to-head with Loblaw.

CATEGORY

1. Metals and Mining Stocks

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1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)
3. TSX:L (Loblaw Companies Limited)
4. TSX:MRU (Metro Inc.)

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