



## 3 Dirt-Cheap Penny Stocks Trading Under \$5

### Description

Penny stocks often get a bad rap. Many investors are convinced they're all frauds or low-quality companies that are easily manipulated by hedge funds and other members of the so-called [smart money](#).

I disagree. Sure, there's a lot of junk out there for less than \$5 per share. But amid all the trash are a few treasures — dirt-cheap penny stocks that offer loads of potential upside. We're talking returns of 200%, 300%, or even as high as 500%.

And although it really shouldn't matter, there's something enticing about buying penny stocks. A \$5,000 investment in a stock trading for \$100 per share gets you a mere 50 shares. The same investment will yield 2,500 shares of a \$2 stock.

Let's take a closer look at three of Canada's top penny stocks — companies that have become incredibly cheap in today's bear market.

### Extendicare

**Extendicare** ([TSX:EXE](#)) just snuck in under the \$5 mark. Shares are trading at \$4.95 each as I write this.

The company owns various senior living properties, including long-term-care facilities and retirement residences for folks who don't need quite as much help. The company also has a robust home healthcare division, and it manages facilities for third parties.

What makes Extendicare one of Canada's top penny stocks is the company's dirt-cheap valuation. The company earned \$0.59 per share in adjusted funds from operations in 2019, despite having a bit of a poor year. That still puts shares at approximately eight times adjusted funds from operations, which is an excellent valuation for such a steady performer. After all, seniors will still need care even after all this COVID-19 stuff is behind us.

Extendicare also pays a generous dividend. The yield is 9.6%, and the payout ratio is around 80% of trailing earnings. That's right; one of Canada's top penny stocks also offers a [sustainable dividend](#).

## Cenovus

Next up on this list of top penny stocks is **Cenovus** ([TSX:CVE](#))([NYSE:CVE](#)) — one of Canada's largest oil producers. 2019 saw the company produce almost 500,000 barrels of oil per day, mostly from its oil sands assets. Production will likely decrease this year, especially if oil continues to trade below \$30 per barrel.

There is some good news, however. Cenovus has 42 years of proven reserves left, and that number could increase as new technology improves results. Its oil sands assets are some of the best out there, boasting big cost advantages compared to some of the company's peers. The company has also improved its balance sheet and doesn't face any major debt maturities until 2022.

Ultimately, however, there's only one thing that will elevate Cenovus away from the world of penny stocks. Oil must recover to around the \$50-per-barrel level. If you believe that will happen, the stock has massive upside potential. Remember, it traded at \$14 per share just a few months ago. Shares are currently \$2.35 apiece.

## Clearwater Seafood

Rounding out this list of top Canadian penny stocks is **Clearwater Seafood** (TSX:CLR), which is one of the nation's top shellfish producers. It has a vertically integrated supply chain, meaning it owns everything from the boats to the factories to the distribution process.

Many people are mixing in more fish into their diets, which is helping increase overall demand for Clearwater's products. One issue is, there's quite a bit of competition, and most customers aren't particularly brand conscious. Shrimp is shrimp, no matter where it comes from.

But Clearwater shares are dirt cheap. The stock trades at approximately seven times earnings, with the bottom line unlikely to be impacted that much over the near term. Frozen seafood is something consumers are buying today as they look for food that can be stored at home for a while, and the restaurant business should bounce back shortly. The company also just announced it has initiated a strategic review — something that should help unlock shareholder value.

## The bottom line on penny stocks

I won't try to downplay it. Each of these Canadian penny stocks could be a risky investment. With great upside potential comes significant risk.

But if you get it right, you're looking at massive returns. Ultimately, it's up to you whether these stocks enter your portfolio, but you at least owe it to yourself to check out each name a little more closely.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:CVE (Cenovus Energy Inc.)
3. TSX:EXE (Extendicare Inc.)

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