TFSA Investors: Want to Beat the Market? Buy 1 of the Cheapest Stocks on the TSX Index Now

Description

There's no way around it, TFSA investors. If you want to beat the market, you're going to have to take the role of a contrarian after one of the worst market meltdowns since the Great Recession.

While many stocks have mostly recovered from the coronavirus crash, there are still plenty of value opportunities in the **TSX Index** sectors that have been hardest hit by lockdowns. It's these sectors that nobody wants to touch given the profound uncertainties brought about by the crisis. Businesses in the most troubled industries are still trading at a fraction of their pre-pandemic prices. It's these such stocks that offer the most upside potential.

Whenever there's a vicious sell-off, the damage tends to overswing to the downside. And for individual stock pickers, there's an opportunity to nab shares of battered businesses at prices below their intrinsic value.

TFSA investors: Sometimes you just need to hold your nose and buy

It may seem reckless to place a bet on the seemingly 'toxic' companies that are operating at ground zero of the coronavirus crisis. These are the restaurants, airlines, retailers, fossil fuel firms, or office real estate investment trusts (REITs).

But to get a better shot at achieving excess risk-adjusted returns, sometimes you need to hold your nose and start doing some buying. Nobody said that being a contrarian TFSA investor would be easy. Still, if you're willing to look like a fool (that's a lower-case 'f') for buying what everybody else is selling, then you've got what it takes to be a Fool that can crush the market.

Beating the market isn't as simple as buying dips on random firms that have been walloped by the coronavirus. You need to put in the due diligence to ensure the firm in question has sufficient liquidity so survive. With severely battered businesses, there's also a tonne of baggage. As such, you need to ensure that the discount on shares more than makes up for the baggage. If not, you could be at risk of holding it should the 'cheap' valuation multiples prove to be nothing more than an illusion.

TFSA investors: One of the cheapest stocks out there

Consider the severely undervalued **Ensign Energy Services** (TSX:ESI). This small-cap stock could outperform over the next three years and beyond as the global economy (and oil markets) bounce back from the crisis.

I know what you're thinking. You'd have to be nuts to invest in an energy services company like Ensign after the coronavirus-induced demand shock that sent oil futures crashing to new lows. Most of the Canadian energy sector may be viewed as off-limits as there are many value traps that could blow up a portfolio. But I do think there are potential multi-bagger opportunities for those willing to put in the due diligence and go against the grain.

Ensign is a relatively unknown oil driller with a $100 million market cap. The stock lost well over 97% of its value and looks like the next Alberta oil patch firm that could go under. Ensign has its fair share of baggage, but with a majority of its revenues derived from outside Canada, I think it has an advantage.

Ensign is also likely to be, by far, the cheapest stock you'll ever come across based on traditional valuation metrics, with shares trading at a mere 0.06 times book.

Foolish takeaway

If you believe that oil prices will normalize, then Ensign is nothing short of a steal. The company looks reasonably liquid with a 1.27 quick ratio, but there is $1.66 billion in debt, mostly longer term, that's weighing down the balance sheet. So, I'd only recommend nibbling at the deep value play if you're a TFSA investor who's no stranger to off-the-charts volatility.

Stay hungry. Stay Foolish.

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Date
2025/08/17
Date Created
2020/05/20
Author
joefrenette