Millennials: If You're a Retro Warren Buffett "Cigar-Butt" Investor, You'll Love This Little-Known Stock!

Description

Millennials, you should seek to take the calculated risks that the baby boomer isn't able to. You've got the ability to take on risk; all you need is the willingness, and you'll be able to improve your chances of bagging a multi-bagger that could play a pivotal role in financing your retirement.

When most think of multi-bagger upside potential, thoughts of pie-in-the-sky, white-hot momentum stocks immediately come to mind. We're talking about names that everybody is talking about, with valuation metrics that investors ignore. This piece won't be about such white-hot names.

This piece will go into a stock that's so out of favour and undervalued that even a modest amount of cautiously optimistic news about the company or its industry could be enough to propel the stock substantially higher. Deep-value stocks that are trading at bottom-of-the-barrel multiples are an underrated way to punch your ticket to a shot at a multi-bagger. We're talking about cigar-butt investments that Warren Buffett used to scoop up at "nearly free" valuations.

While Buffett has since moved on from his cigar-butt approach to investing, I think it makes sense for millennials to look to severely undervalued cigar butts for the chance that there may be a couple of puffs left.

A cigar butt worth picking up

Consider looking to the heavily out-of-favour energy service space. **Ensign Energy Services** (TSX:ESI) is currently trading at a multiple that essentially implies bankruptcy. With a decent liquidity standing, Ensign isn't in a position to go under, even after the coronavirus-induced collapse in oil prices, as I outlined in a prior piece recommending the name.

"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." I wrote in a prior piece.

There’s cheap, there’s ridiculously cheap, and then there’s Ensign cheap

Since recommending Ensign just under a week ago, the small-cap stock has popped 25%. And I don’t think it’s done bouncing yet, as the stock is still over 97% below its 2006 all-time highs. The oil driller, which derives a considerable amount of business from outside Canada, currently trades at 0.08 times book, and no, that’s not a typo!

The stock trades for 8% of book and is likely to be one of the cheapest stocks based on traditional valuation metrics that you’ll ever find. The company has its fair share of longer-term debt, and that doesn’t bode well for the firm if oil prices are to remain at these depths for the long haul. If you’re of the belief that oil prices will normalize at pre-pandemic levels with time, Ensign is unlikely to be a “value trap,” even though its valuation metrics are suggestive of such.

While Ensign is so cheap such that it implies a wide margin of safety, the stock is still ridiculously volatile and too risky for those with a time horizon shorter than a few years. For those willing to hold for the long haul, however, the potential rewards for the small-cap firm are profound.

Foolish takeaway

With a mere $117 million market cap, Ensign has a front-row seat to a broader energy industry rebound. As such, I’d recommend buying shares today, while they’re down in the ditches if you’re not as bearish on the future of the North American oil patch, as most are right now.

CATEGORY

1. Energy Stocks
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POST TAG

1. Editor's Choice

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1. TSX:ESI (Ensign Energy Services Inc.)

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