1 Underperforming TSX Stock That Could Turn a Corner in August

Description

The “dogs of the TSX” strategy may not be right for everybody. Betting on any basket of underperformers could come with immense pain, especially given many losers are positioned to continue losing. When a company is in a slump, it’s tough to break that losing streak. And until it does, investors are the ones that are left holding the bag until a firm can turn a corner and get its shares back on the right trajectory.

Undoubtedly, some firms are easier to turnaround than others.

Less-than-load trucker **TFI International** is a prime example of a firm that was derailed, but it quickly got things back on the right track. Today, its stock is one of the hottest momentum stocks on the entire TSX Index. And it’s not about to turn back now that management has ironed out the wrinkles in operations, so to speak.

On the flip side, enterprise software darling **BlackBerry** is a deep-value play that’s been quite tough to hold for the past several years. While the company has shown signs of turning the ship around, issues have, in some form or another, have continued to arise. That has many analysts sticking with their “sell” ratings, as BlackBerry has continued to be a dog that many don’t see rising to the top, at least not anytime soon.

Where to look for TSX stock “dogs” that could rise to the top?

The simple act of just placing bets on the TSX dogs is not a formula for superior investment returns. But if you seek deep value in an expensive market, it is worth looking to the names with realistic and timely turnaround plans that have a high likelihood of coming to fruition over the medium term.

When it comes to the dogs of any market index, I think it’s only wise to take a page out of Warren Buffett’s playbook by investing in what you know, rather than trying to navigate way outside of your circle of competence to uncover the greatest discounts.

Value traps exist in today’s rocky market, and they’ll continue to be a major source of pain for beginner investors who either lack the conviction or sound investment theses. Turnaround stories can be quite complicated and longer than expected. That's why it's vital to know the risk/reward before placing any bets.

Maple Leaf Foods: A dirt-cheap multiple with compelling catalysts

Consider **Maple Leaf Foods** (TSX:MFI), a $3.1 billion Canadian meats company we all know and love. The TSX stock has been dragging its feet for years; it's now down 16% over the past five years and 12% year to date.

With second-quarter earnings on tap for August 5, I think MFI could be a major mover to the upside now that the bar has been set so low.

Undoubtedly, investors will be setting their sights on the firm's EBITDA margins, as the company looks to make up for a sluggish first half of 2021. COVID-19 headwinds are starting to fade, and once Maple Leaf's new offerings can finally be launched, I see ample upside over the next 18 months.

In terms of valuation, Maple Leaf Foods trades at a rock-bottom multiple at 0.7 times sales and 1.5 times book value. Such a depressed multiple, I believe, comes with a pretty remarkable margin of safety at current levels.

As such, I'd look to nibble on a few shares before the second quarter, as it could mark the beginning of an epic turnaround in the protein powerhouse. If Maple Leaf misses, I'd look to add to the cheap TSX stock that could become that much cheaper.

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Date
2025/06/28
Date Created
2021/07/26
Author
joefrenette