2 Contrarian Stocks for 2023 and Beyond

### Description

**TSX** stocks that have done poorly this year may not be real losers. Here are a couple of contrarian stocks that could potentially outperform in 2023 and beyond.



## NFI stock

**NFI Group** (TSX:NFI) is down in the dumps. The stock lost more than half of its value in 2022.

At writing, it trades at $8.85, which is down 4.12%, after Wednesday's trading — the last trading day for the purpose of tax-loss harvesting this year.

NFI manufactures heavy-duty transit buses and motor coaches in North America and also caters to the aftermarket. The company suffered from supply chain issues and lower production this year. Consequently, it ended up cutting its dividend by 75% in March. High debt levels are also pressuring the stock in today's higher interest rate environment.

At the end of the third quarter, its debt-to-equity ratio was 2.8 times, up from 2.6 times in 2019. The difference in debt levels appears small. However, its borrowing interest rate has increased to about 8.5% from 4.9%.

You should know that the stock traded as high as $30 last year. If it turns around over the next three years, it could triple your money, but it's a speculative buy at the moment. Interested investors would be smart to wait for a couple of quarters in 2023 before reconsidering the contrarian play.

## Algonquin stock

NFI cut its dividend. **Algonquin Power & Utilities's** (TSX:AQN) dividend seems ready for a cut as well. You read that right. The dividend stock that has increased its dividend for 11 consecutive years is looking ripe for a potential dividend cut in 2023.

About 80% of Algonquin's business is regulated utilities, which earn predictable returns on its assets. There's also no obvious problem with the remainder of its portfolio, which consists of renewable and clean energy facilities predominately under long-term contracts of about 12 years with inflation escalations. However, its payout ratio has always been high versus its bigger peers. As well, because it's more focused on growth, its debt levels are also higher.

A higher payout ratio and debt levels imply a riskier stock in a higher interest rate environment. Because management lowered its earnings guidance for 2022, its payout ratio is expected to be stretched over 100% this year.

Algonquin plans to maintain an investment-grade credit rating, which S&P currently rates as BBB . Yesterday, the stock fell 2.4% to $8.95 per share and offers a yield of almost 11%. In other words, the market is pricing in a dividend cut. A dividend cut of about 40% would bring its payout ratio down to about 64% and reduce its current yield to roughly 6.6%, which seems fair in today's environment.

## The Foolish investor takeaway

Allocating a small percentage of capital in contrarian stocks for a turnaround could be a super lucrative investment over the next three to five years. However, investors need to be super selective. Between NFI and AQN stocks, the latter is a safer investment for its less cyclical earnings. In other words, investors would be taking on greater risk if they choose a contrarian stock like NFI.



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1. Dividend Stocks
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2. TSX:NFI (NFI Group)

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