5 Stock Buys At BIG Discounts

By George Putnam

Some investors won't buy clothes, gear or cars unless they are at full price. The logic: if it is sold at a discount, it must not be any good. The same is true with stocks. It's comfortable to buy brand-name stocks that have been rising strongly and sell at premium prices.

But, as Warren Buffett points out, "price is what you pay, value is what you get." With that thought in mind, I sifted through a list of stocks with market caps of at least $1 billion that are selling at huge discounts to their 52-week highs. Interestingly, there were no stocks with declines of more than 40% among the 386 companies with market caps above $22 billion. As expected, many of the candidate companies are in serious trouble and probably deserve their discounts.

However, I found a handful that have real value that the market appears to be missing. In this report are my top five bargain-bin stocks.

AmTrust Financial Services (AFSI)

Market Cap: $2.7 billion		Percent Change from 52-Week High: -52%
Revenues (ttm): $5.9 billion

AmTrust Financial Services is a global provider of workers' compensation, property and casualty, and warranty insurance. The company is working to integrate several large acquisitions and has had severe difficulties with reserve levels, leading to legitimate concerns over its financial health.

However, AmTrust is rebuilding and simplifying its balance sheet, providing more disclosure to investors and improving its overall operating efficiency. Since May, it has raised $300 million in new equity, sold a $212 million stake in an affiliate and purchased up to $400 million of re-insurance coverage to limit its risks. Its underlying markets continue to look healthy. With a modest 9x EBIT valuation and a 5.1% yield, AmTrust's future looks much better than its recent past implies.

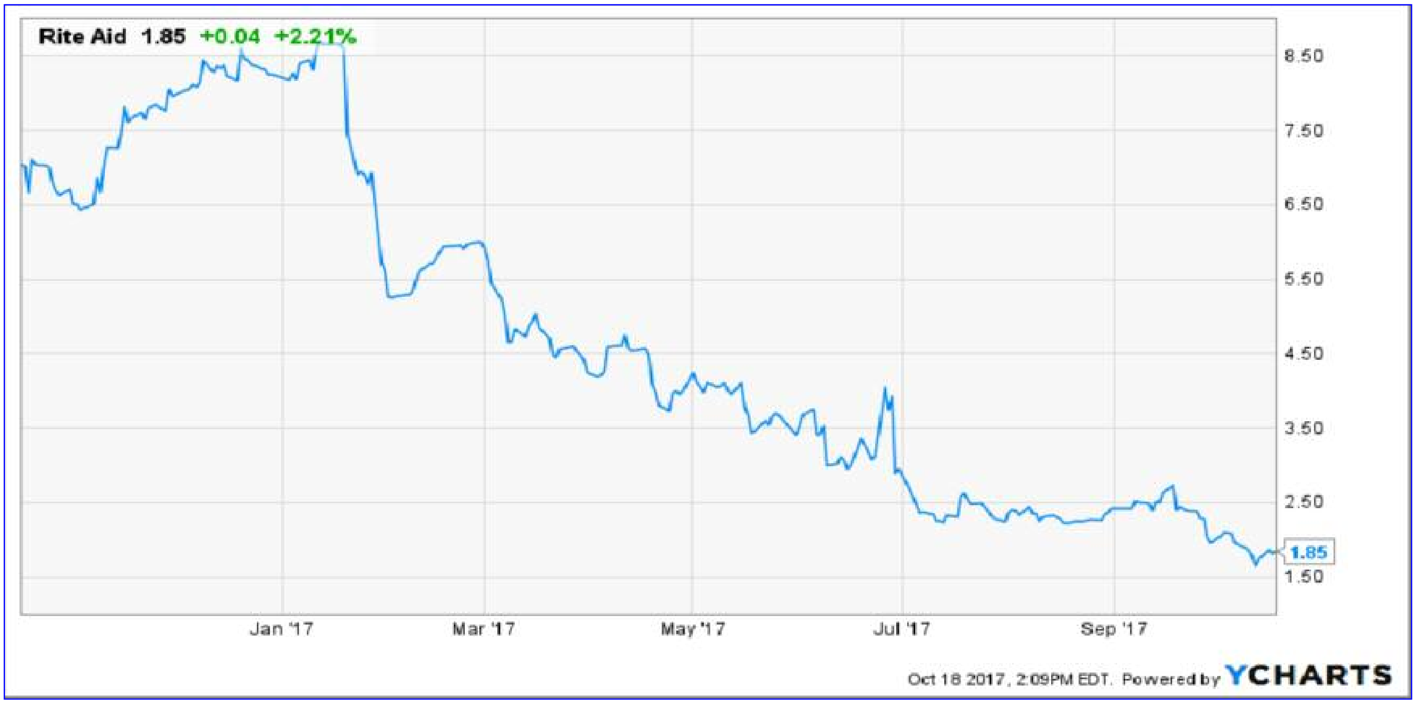
Rite Aid (RAD)

Market Cap: $1.9 billion

Percent Change from 52-Week High: -77%

Revenues (ttm): $32.0 billion

Rite Aid, currently the nation's third largest retail pharmacy company with more than 4,500 stores, is in the midst of a major transformation. After its deal to sell the whole company to Walgreens was blocked by antitrust regulators, it will now sell about half of its stores to the larger chain and enter into a ten-year supply agreement with Walgreens. These transactions will allow Rite Aid to cut its debt and improve margins. Recent results have been poor, but as the merger distractions subside and management renews its focus on its more concentrated store base, profits and the stock price should rebound.

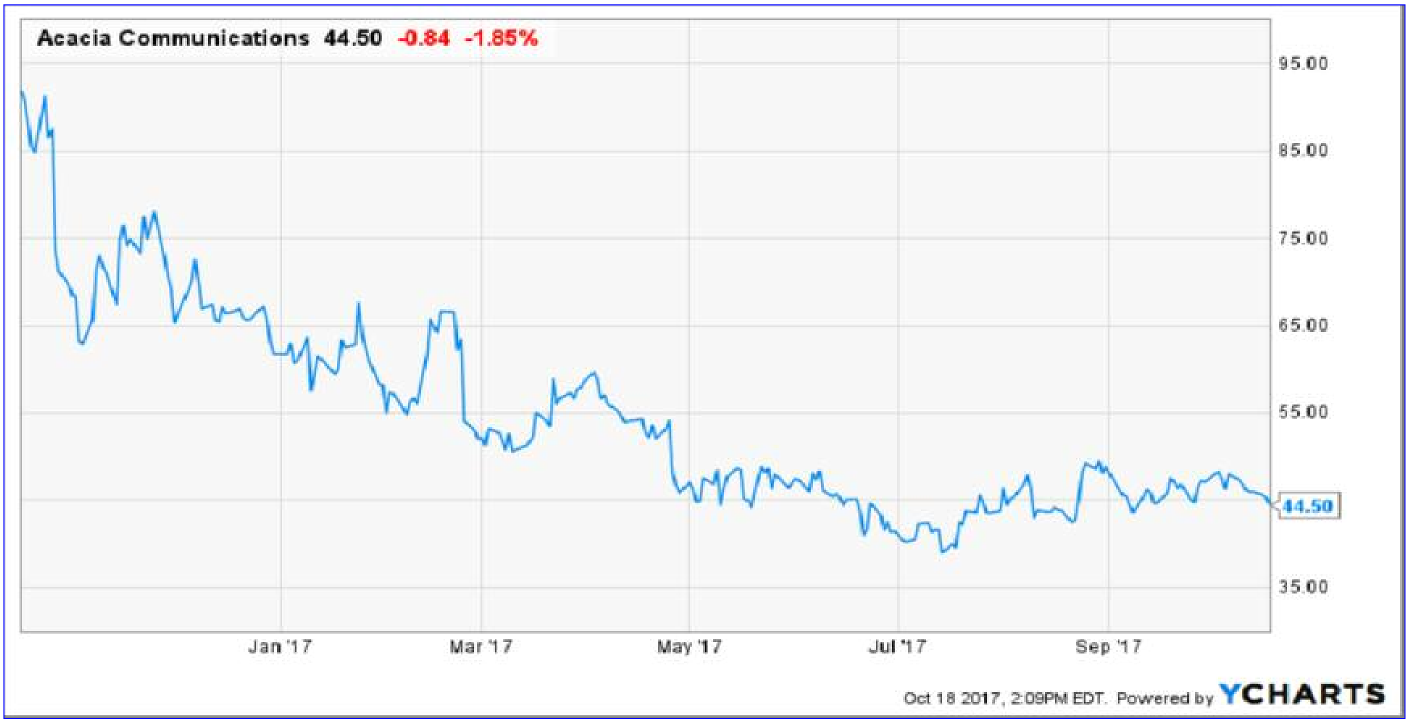


Acacia Communications (ACIA)

Market Cap: $1.8 billion Percent Change from 52-Week High: -59%

Revenues (ttm): $471.3 million

Acacia Communications, with revenues of about $470 million, is the market leader in specialized high-speed modules and components for data cloud and other high-performance networks. Its key markets, including China, continue to show impressive growth as communications networks continually increase their speeds. Following several years of healthy revenue growth, Acacia has stumbled recently. Quality problems at a supplier left them short of product, and high customer inventory levels (especially in China) temporarily stalled new orders. These problems appear to be just about resolved, and the company appears well-positioned to benefit from robust market trends. Acacia produces positive cash flow, has $285 million in cash and no debt, and trades at a relatively modest (for a technology company) 12x EBITDA.

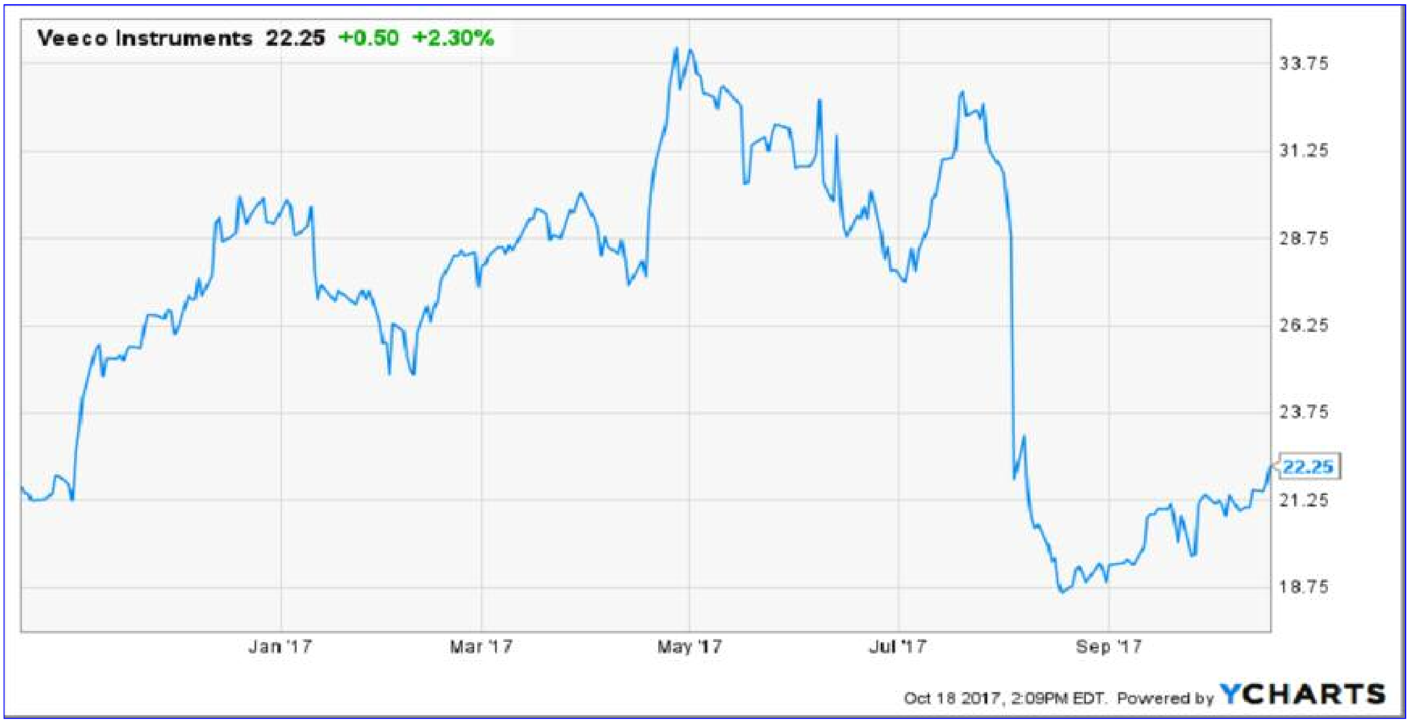


Veeco Instruments (VECO)

Market Cap: $1.1 billion Percent Change from 52-Week High: -38%

Revenues (ttm): $388.5 million

Veeco Instruments, with revenues of about $500 million, builds high-performance equipment used for manufacturing semiconductor wafers, LEDs and other electronic components. The market leader in advanced thin film process technologies, Veeco recently completed the acquisition of UltraTech for $815 million, adding new capabilities and markets. Its share price is down sharply following its second quarter results on concerns about weak revenue and market share losses, particularly in China. However, overall industry demand for Vecco's products appears healthy, the company's steady innovation should help it retain customers and management seems up to the task of restoring growth. The balance sheet is conservative.



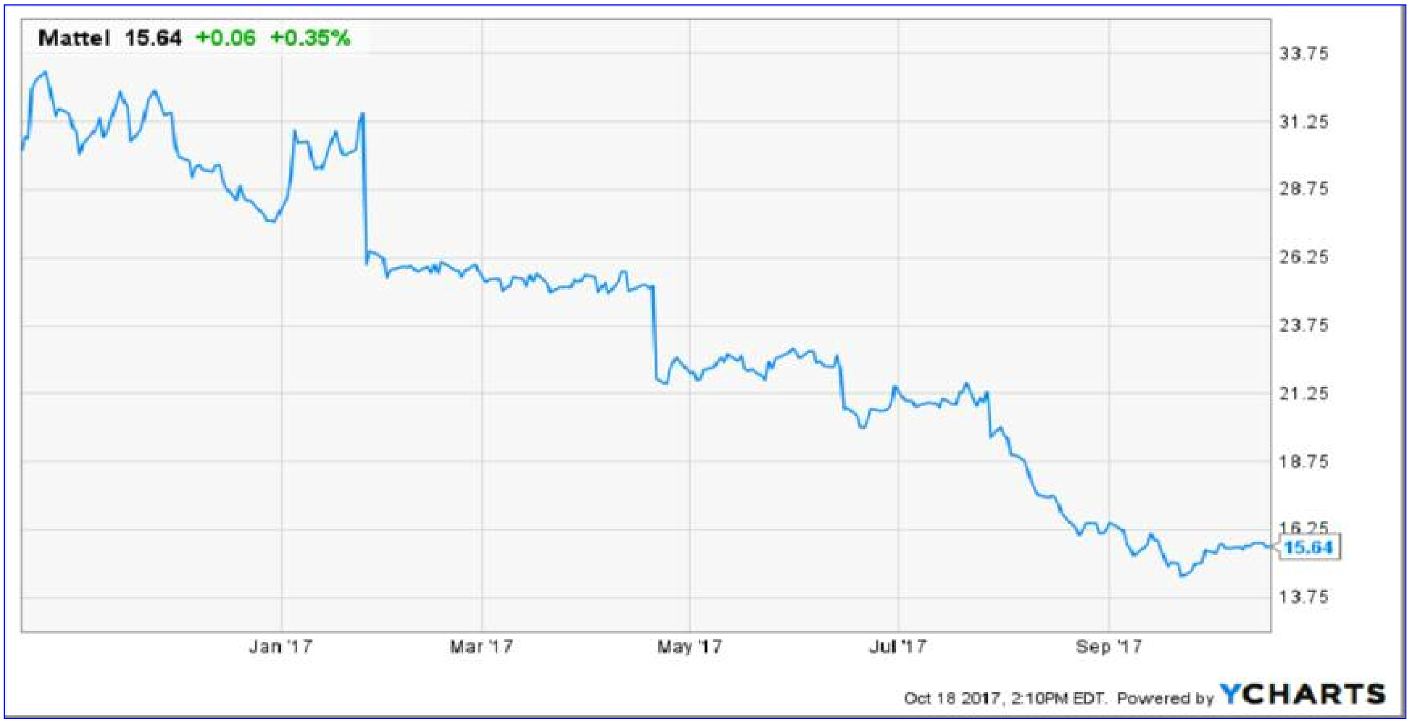
Mattel (MAT)

Market Cap: $5.3 billion

Percent Change from 52-Week High: -55%

Revenues (ttm): $5.3 billion

Investor sentiment for **Mattel**, one of the nation's largest toymakers, including the iconic Barbie, Hot Wheels and Fisher-Price toys, couldn't get much worse. Management's efforts to reverse the company's stagnant bureaucracy and boost its innovation appear to be making progress, but the pace isn't meeting the market's expectations. Investors were also disappointed by the 60% dividend cut, and concerned that one of its major customers, Toys"R"Us, recently declared bankruptcy. Mattel still struggles to monetize the value in its iconic brands, but I have confidence that management will find the answer.



George Putnam's Turnaround Letter has a long track record of stellar performance. The annualized return of his stock picks over the past 20 years is 9.7% versus the S&P 500's 6.9%. And so far in 2017, his closed out stock picks average 31% gains.