



12 Stocks to Buy

— For —

2017

Donald Trump's stunning electoral upset of Hillary Clinton quickly went from pre-market panic to a no-holds-barred bull run. The big question of course is can the euphoria last in 2017? So far, much of the market reaction has more to do with the anticipation of less regulation, higher inflation and lower taxes than it does with material economic or policy changes. Many remain anxious about what the coming year will bring. Will health care stocks take a beating given Trump's campaign pledge to overturn the Affordable Care Act? Will there be a windfall for energy and infrastructure stocks? No matter which sector you think might win or lose as the changing of the guard in Washington takes hold, most experts are betting that volatility will take center stage in 2017.

We reached out to some of Forbes' money and investing experts to find out what their top recommendations are for 2017. In this special report are 12 great ideas from six top advisors.

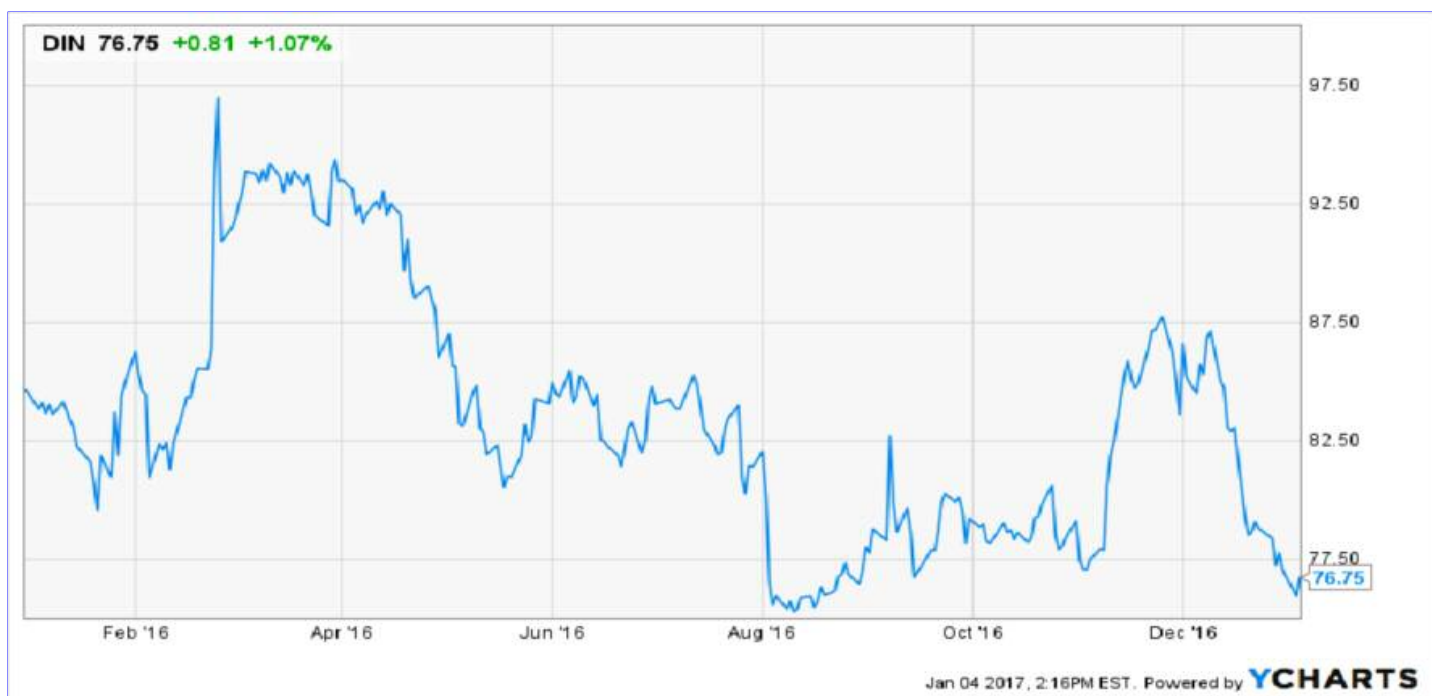
DineEquity (DIN)

Market Cap: \$1.4 billion

Dividend Yield: 5.1%

Glendale, Calif.-based **DineEquity** owns the Applebee's and IHOP restaurant chains. Revenue in 2017 is forecast to tick higher by 2.5% to \$655 million, with profits up 5%. Dividends have grown 9% a year since 2013, with the payout currently good for a yield of 5.1%. At 13.7 times earnings, DIN trades 10% below its five-year average P/E ratio, and it sports a 13% discount to its average price-to-free cash flow ratio. The reason for the cheapness has been Applebee's, where sales declines have been a drag. "The positive side of the story is IHOP, a very healthy brand with lots of consumer loyalty," says Chris O'Cull, analyst at KeyBanc Capital Markets. "Turning things around at Applebee's would be very positive."

If the company is able turn things around at Applebee's, potential tax cuts under a Trump administration could be an additional tonic. "Tax cuts geared towards middle America should support increased disposable spending power for this core consumer group," says Raymond James Analyst Brian Vaccaro. "The company's 100% franchise model generates stable and significant free cash flow, which covers its annual dividend payment a nearly two-to-one margin."

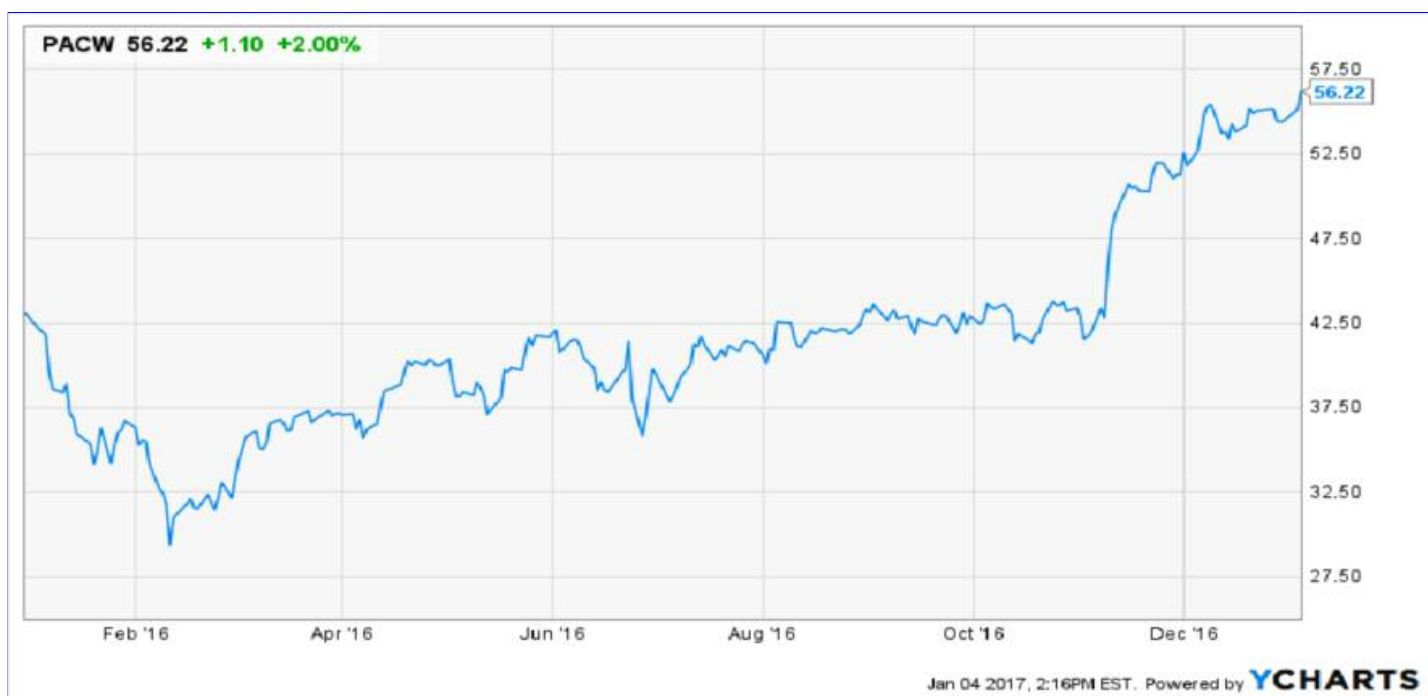


PacWest Bancorp (PACW)

Market Cap: \$6.8 billion

Dividend Yield: 3.6%

Smaller banks have been big post-election winners, with the S&P Regional Banks ETF up 21% since Election Day. Even after a gain of 22%, shares of Beverly Hills-based **PacWest Bancorp** still look undervalued and offer a dividend yield of 3.6%. The California bank operates 80 branches and its stock trades at a 10% discount to its five-year average price-to-book value multiple and 15% below its average P/E. Rising rates help fatten banks' profit margins. "With its large base of low-cost commercial deposits and fairly rapid repricing of its loan portfolio, PacWest is among the best positioned banks to benefit from higher interest rates," says Aaron Deer, an analyst at Sandler O'Neill. Even better for income investors, PacWest has extra cash to spend on higher dividends. "PacWest has a sizeable amount of excess capital that can be deployed to drive earnings higher," says Tyler Stafford, analyst at Stephens Inc. "The company announced a \$400 million share repurchase program, and while we don't expect buybacks to be overly active at current valuations, we do think the door is now open for a potential special dividend or M&A announcement if they can find the right partner."



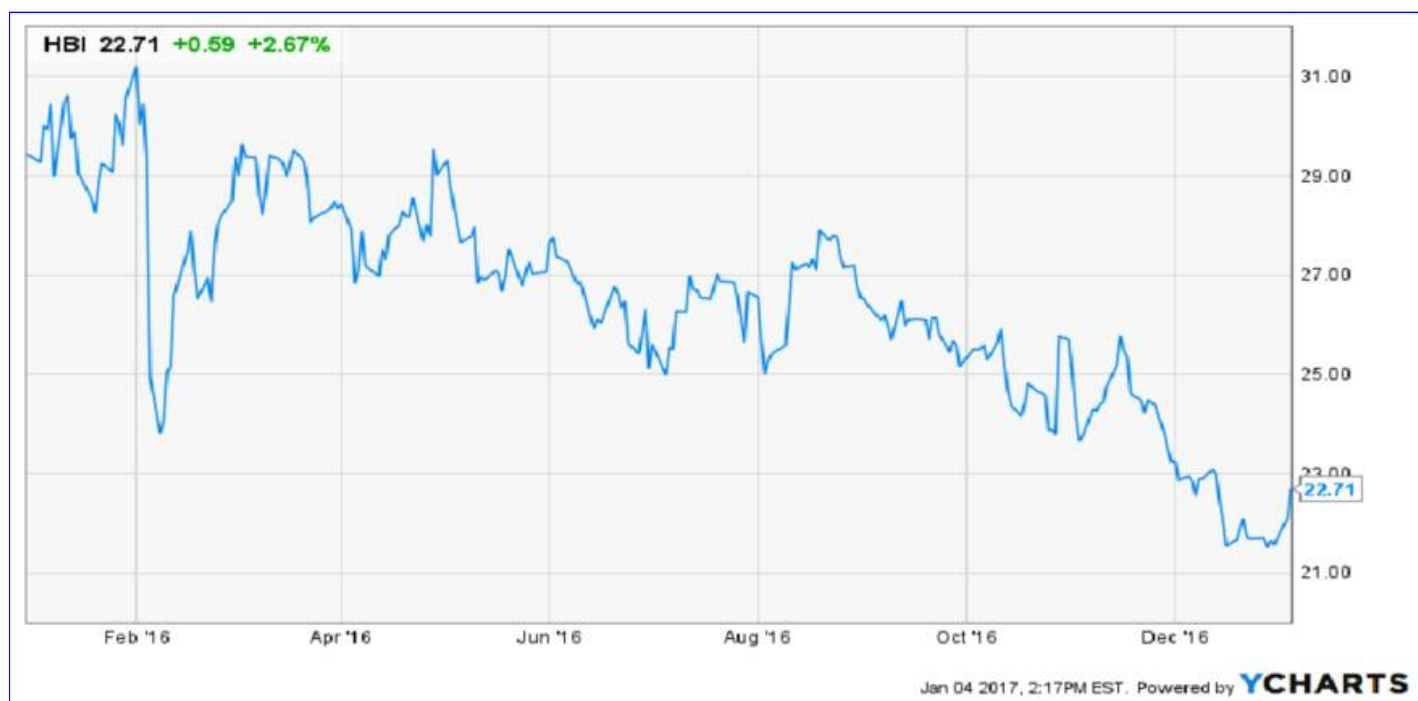
Hanesbrands (HBI)

Market Cap: \$8.5 billion

Dividend Yield: 1.9%

Hanesbrands is a leading global maker and marketer of everyday basic apparel and the largest seller of intimate apparel, men’s underwear and children’s underwear by volume in the U.S. These products are sold under some of the most recognizable apparel brands, including Hanes, Champion, Maidenform and Wonderbra. Yet despite this dominant market position and strong brand portfolio, HBI’s stock was a huge disappointment in 2016, falling more than 26% for the year. This has largely been driven by a recent dip in organic sales, which has investors concerned over the health of the company’s growth going forward.

But I hold a more optimistic view. In particular, two of the biggest reasons for the soft organic sales performance were the unanticipated bankruptcies of several sporting goods retail customers and HBI’s planned exit of its slow-growth legacy catalog business. With the impact from these headwinds anticipated to ease in the coming quarters, synergies from key recent acquisitions expected to become more significant, and the launch of the company’s first significant product innovation in over a decade likely to gain further traction, I think 2017 will represent a much better year for both HBI’s operations and its stock.



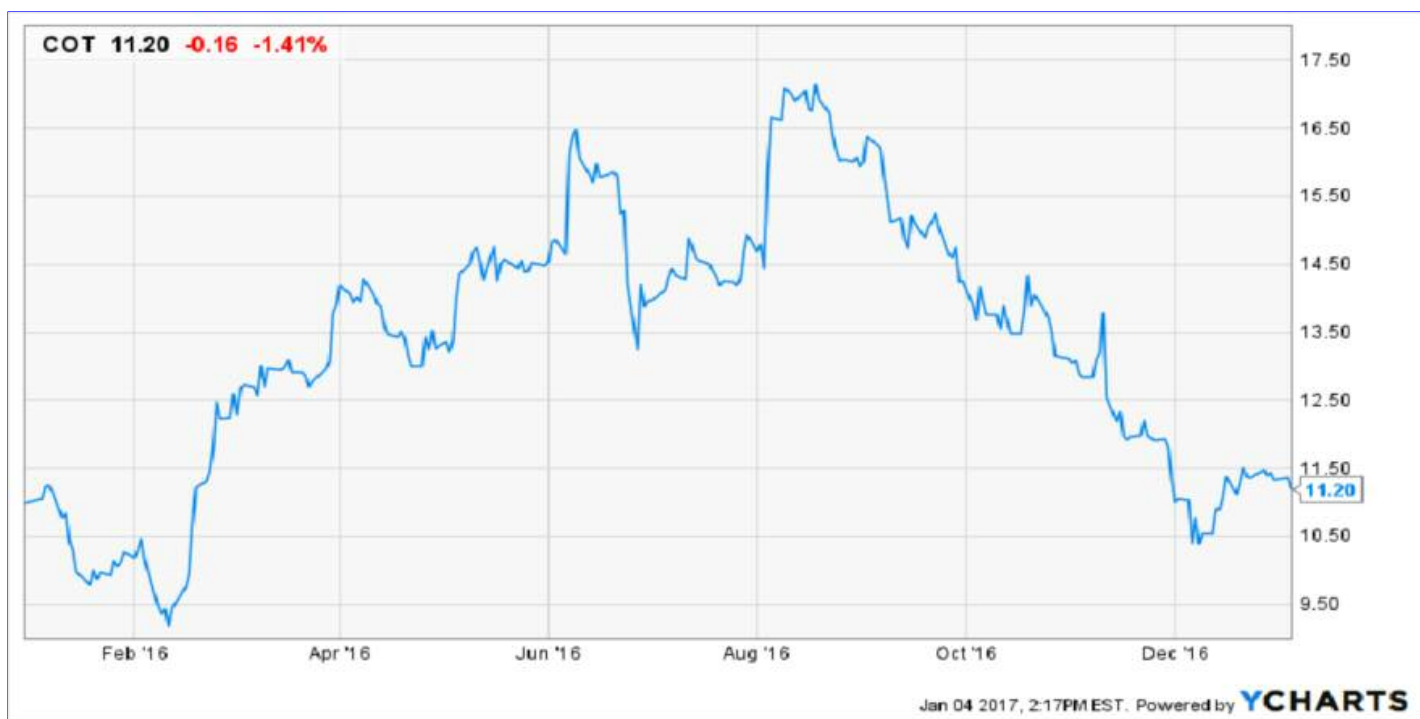
Cott (COT)

Market Cap: \$1.7 billion

Dividend Yield: 2.1%

Cott is a leading global beverage company, specializing in the direct delivery of water and coffee products in North America and Europe, and the production of beverages on behalf of retailers, brand owners and distributors. With its bread and butter soft drink business suffering from the consumer shift towards healthier alternatives such as water, COT made the bold decision to significantly diversify its operations by expanding into the home and office beverage delivery market in 2014. As this move quickly began paying off, its stock nearly tripled in less than two years. However, weaker-than-expected performance from this business and rising pressure from the depreciating British pound on its U.K. operations in recent periods have COT's shares down 34% since mid-August.

Yet I believe that the primary factors driving these headwinds, such as product shortages resulting from a change in an external co-packer and elevated costs to service the substantial spike in new customer additions, will prove temporary. When combined with the increasing contributions projected from recent acquisitions, I expect COT's ongoing business transformation to yield higher profit margins and much better free cash flow in the year ahead. This should help the stock return to outperforming once again.



SandRidge Energy (SD)

Market Cap: \$488.0 million

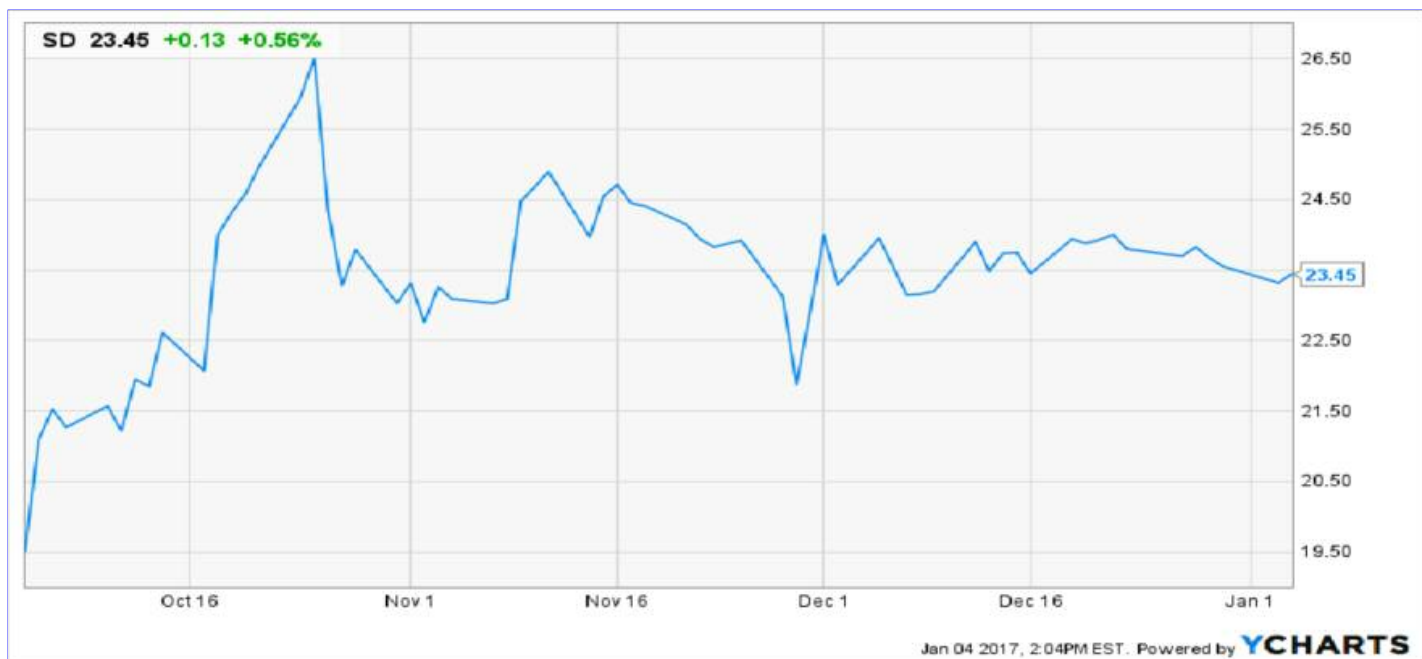
Revenue (ttm): \$437.5

When oil was trading at \$26 back in February, the U.S. shale industry was getting hurt badly. But within months, the price of oil had nearly doubled from the lows. Still, one of the big natural gas producers, **SandRidge Energy**, chose to pursue bankruptcy.

In a Chapter 11 bankruptcy, SandRidge was able to continue operating its business as normal throughout the bankruptcy. It cancelled its existing stock and swapped new stock for debt. The company was freed of the noose of debt, and the debt holders exchanged a piece of paper that was once worth pennies on the dollar, for common stock in a super-charged debt-free company.

As of October 5, SandRidge emerged with virtually zero debt (interest free debt that converts to common), a half a billion dollars in liquidity and an ability to take advantage of what may be a bullish run in oil and natural gas prices. It's a very bad deal for old shareholders, and potentially a very lucrative deal for new shareholders. The stock was relisted on the NYSE. Including the dilution from convertible debt holders, the opening price gave SandRidge a \$370 million market cap. At the end of 2013, the market cap of the debt-heavy company was \$3 billion.

SandRidge now has wind in its sail from a Trump administration. He's pledged to cut regulations and stimulate a "shale industry revolution." Billionaire hedge funder Andy Redleaf of Whitebox Advisors, who predicted the global financial crisis, took a 7.5% stake in SandRidge the day it came out of bankruptcy. Billionaire Leon Black's Apollo Management bought 6.7% of the new stock.



Bank of New York Mellon (BK)

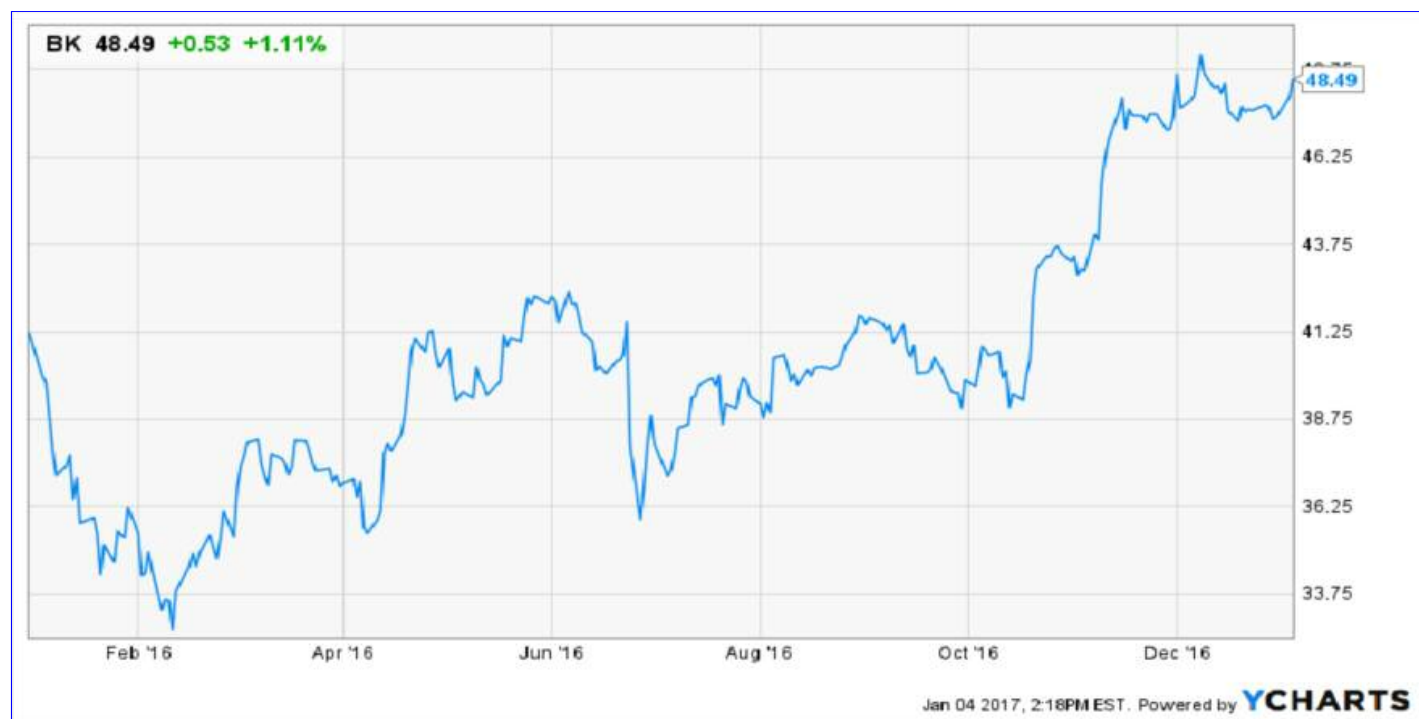
Market Cap: \$51.9 billion

Dividend Yield: 1.6%

Banks have been crushed by Dodd Frank. This is the legislation that responded to the global financial crisis—where banks had become hedge funds, taking massive-leveraged-speculative bets against their deposit base. When the housing bubble burst, they became exposed and were bailed out to keep the financial system alive. The days of highly leveraged proprietary trading taking over the banking business model, should never return. But the pendulum swung too far in the other direction on Dodd Frank. In a Trump economy risk taking will almost certainly return to the banking system again. That has bank stocks on the move, as one of the industries to benefit most from a pro-growth administration.

Activist investors Nelson Peltz, CEO of Trian Partners, and Mick McGuire, CEO of Marcato Capital Management, both have high conviction stakes in a big, but undervalued bank stock, **Bank of New York Mellon**. For McGuire, it's been a massive stake at a third of his portfolio. For Peltz, it's about 12% of his portfolio. His CIO is on the board. Peltz is a high conviction, high concentration investor. Bank of New York is the fourth largest position and he holds just seven stocks in his \$10 billion portfolio.

With Bank of New York you get a bloated blue chip bank with margin hawks (Peltz and McGuire) rattling the cages at BK as the catalyst to unlock value.



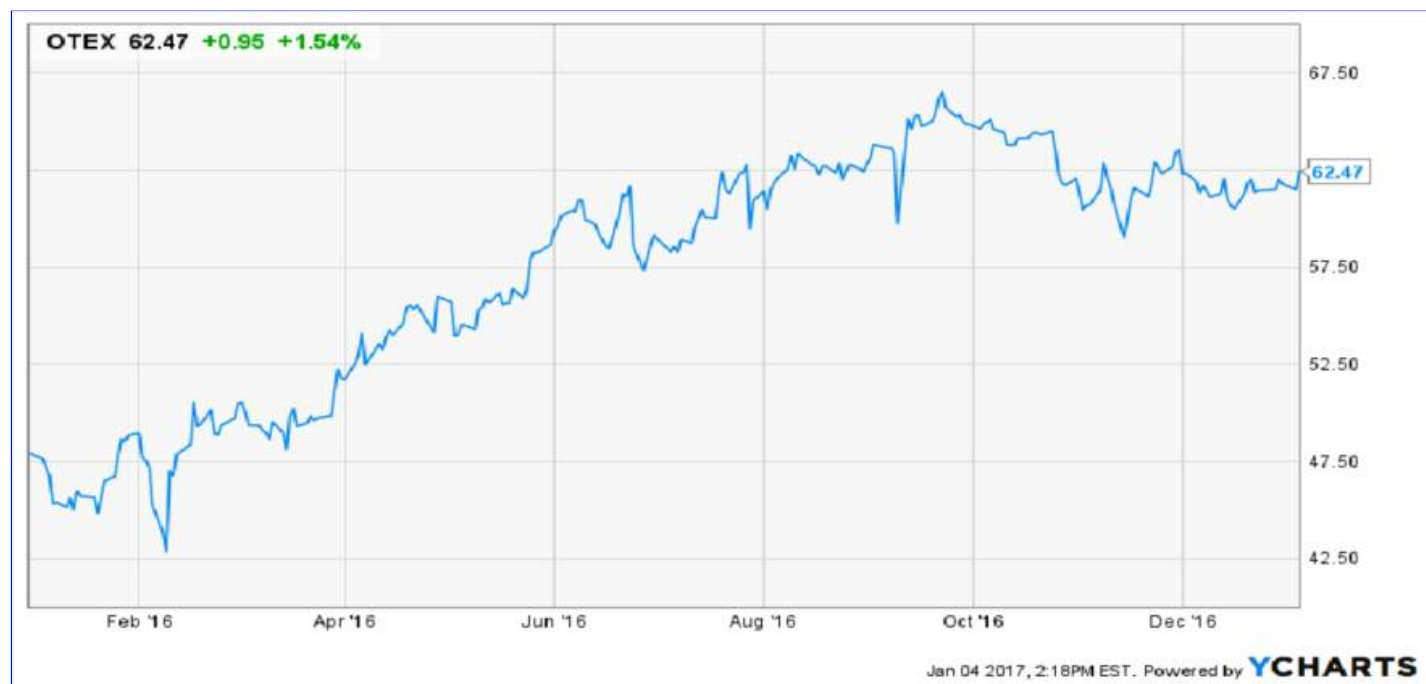
Open Text (OTEX)

Market Cap: \$8.2 billion

Dividend Yield: 1.5%

In a time when information technology is paramount, Validea’s investment guru-inspired stock screening models have spotted a company that not only helps businesses optimize their use of information both on-premises and in the cloud but also fosters innovation in content management and analytics across a host of industries. I have simulated strategies of such legendary investors as Warren Buffett and Benjamin Graham, and my model based on the tenets of contrarian investor David Dreman pegged **Open Text** as a fundamentally sound yet undervalued business. The Dreman-inspired strategy looks for gems on the stock market “trash heap” that not only show low price-earnings ratios but that also throw off surplus cash and present strong income-generating potential for investors.

With both price-earnings and price-cash flow ratios falling in the bottom 20% of the market, this 25-year-old tech company fits the bill. Its P/E, based on trailing 12-month earnings, of 6.59 indicates a deep value opportunity while the payout ratio of 8.98%—compared to a historical rate of 23.77%—provides ample room for dividend bumps going forward. Low price-cash flow reflects strong liquidity and reinforces that the stock is undervalued. Return-on-equity (49.3%) hovers well above the top third of the market. This mid-cap stock could prove to be a nice winner in 2017 and beyond.



Tenneco (TEN)

Market Cap: \$3.6 billion

Revenue (ttm): \$8.5 billion

This global manufacturing company is one of the world's leading suppliers of clean air and ride performance products for the auto industry. Given that some of the major auto makers have exceeded their fall 2016 sales forecasts, **Tenneco** could be looking at some upside. Inspired by the investment methodologies of market gurus such as Peter Lynch and John Neff, I created stock screening models capable of identifying well-priced stocks of fundamentally sound businesses. My Neff-inspired model, which focuses on low price-earnings ratios along with stable growth in earnings-per-share and healthy cash flow, pegged TEN as worth a look.

This Illinois-based company's P/E ratio of 8.59 falls well within the range required by this model (between 40% and 60% below the market P/E) and growth in earnings-per-share of 18.2% (based on 3-, 4- and 5-year averages) falls in the high end of the model's preferred range of between 12% and 20%. Positive free cash flow of \$3.46 per-share is a plus. Tenneco does use a lot of debt, which is something to keep your eye on, but the good free cash flow and earnings persistence are characteristics that I think will have investors favorable on the stock over the following 12-24 months.



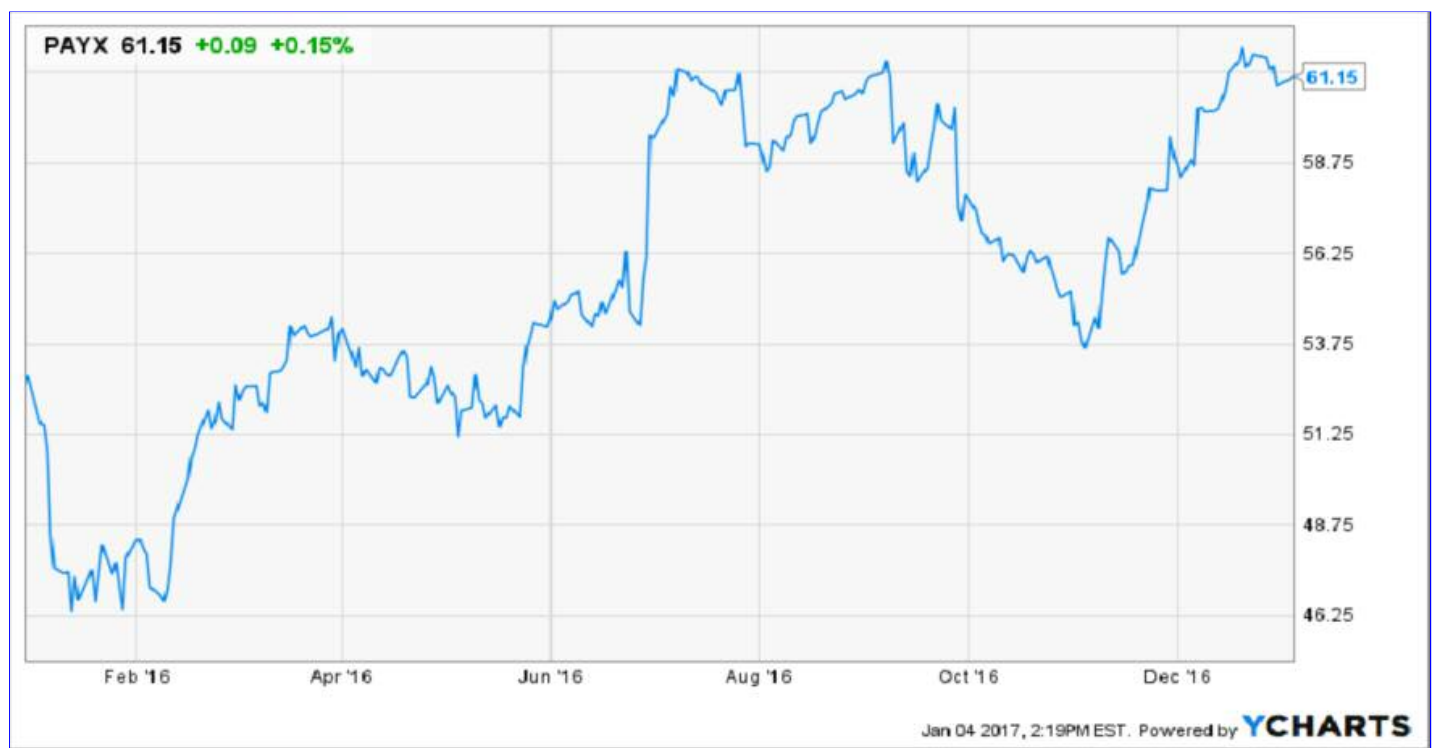
Paychex (PAYX)

Market Cap: \$22.0 billion

Dividend Yield: 3.0%

Paychex is the definition of a wonderful company at a fair price. With recurring revenue, low capex, high net margins, supercharged return on invested capital and laudable economic value added, PAYX is one of the best businesses I know of. What's more, it has enormous pricing power. It's hard to switch payroll processors, which allows Paychex to raise its prices faster than the rate of inflation. This "stickiness" is an enormous advantage.

A quick look at profitability metrics tells the tale of PAYX's stellar success: Return of invested capital (ROIC) has averaged 34% over the past decade—an extraordinary performance. A good chunk of PAYX's high ROIC is due to its pricing power combined with its low capital needs. In addition, PAYX makes money on float (the payroll taxes it temporarily holds for clients before sending them on to the tax authorities). Returns on float have been depressed over the past several years due to low short-term rates. But as rates rise, income on the float will drop directly to the bottom line. This makes PAYX an attractive stock to own as inflation rises and rates rise along with it. PAYX is not especially cheap, but it's still worth buying here. It's the type of company you can hold for a long time—even through an inflationary Trump presidency.

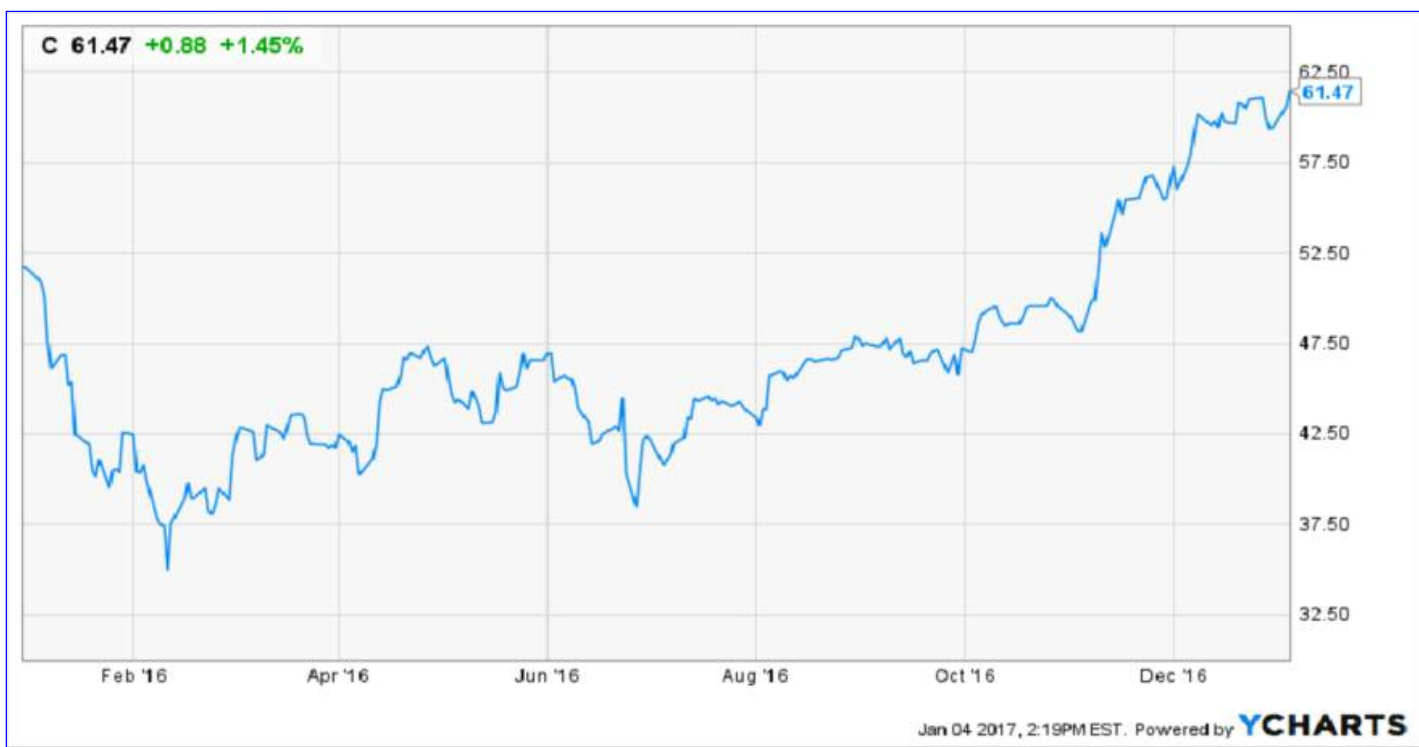


Citigroup (C)

Market Cap: \$173.3 billion

Dividend Yield: 1.1%

Citigroup is up 18% since Nov. 9. Like many financial stocks it has been boosted by Trump's election on the theory that the costly regulatory environment will be repealed. Even though this giddy enthusiasm may not ultimately be rewarded by policy, I would continue to buy Citigroup at this price. Citi is still trading at a 30% discount to book value, a number that does not properly give credit for the progress the company has made since the financial crisis. With assets at just eight times equity, Citi is now a conservatively leveraged bank. Despite the shrinking of its balance sheet and the divestment of some international businesses, it is still a global bank and remains leveraged to global growth. With significant exposure to Latin America and Asia, Citi should benefit from an eventual recovery in those regions.



Toronto-Dominion Bank (TD)

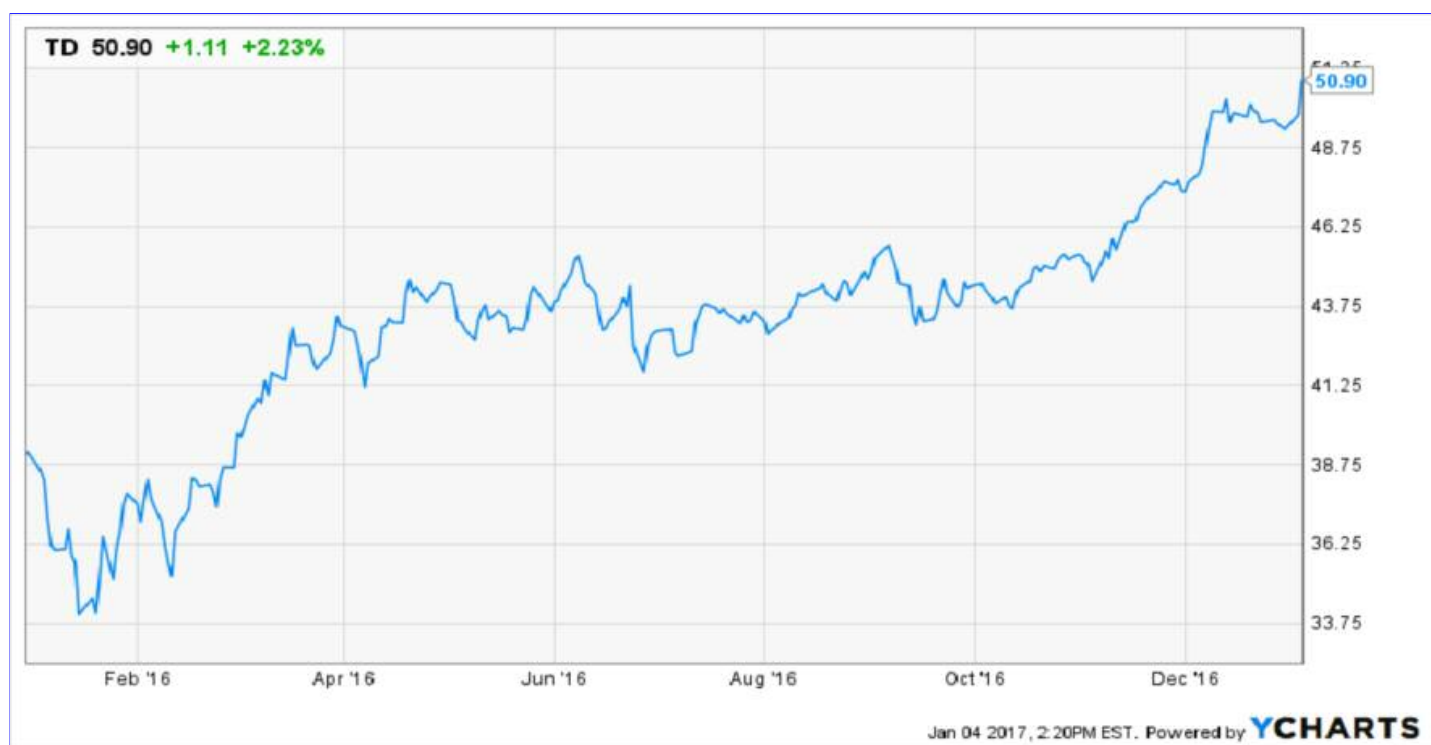
Market Cap: \$89.8 billion

Dividend Yield: 4.3%

Current stock valuations are the third most expensive in history. Bargains are scarce. So at 13 times trailing earnings, a 4.3% dividend yield and a 20-year history of 13.53% compound annual growth, the **Toronto-Dominion Bank** is a standout. TD is the second largest bank in Canada, and is growing rapidly internationally, especially in the U.S.

Despite the severe weakness in Canada's oil & gas economy, TD's revenues rose 8.7% for the fourth quarter and 9.2% for the full fiscal year that just ended. EPS rose 7.0% and 5.6% to \$1.22 and \$4.87, respectively. Full-year dividends are \$2.16, up 8.0% from last year. The payout ratio is 46.1%, leaving ample cash for growth and future dividend increases. In performance metrics, the bank's efficiency ratio is excellent at 55% and its Common Equity Tier 1 Capital ratio is a very solid 10.4%.

The improving outlook for energy and TD's continued growth in the U.S. and abroad should boost TD's earnings significantly in coming years, allowing it to continue beating the market soundly.



American Express (AXP)

Market Cap: \$69.2 billion

Dividend Yield: 1.7%

American Express has lagged its peers recently because its disciplined management team declined to enter a bidding war to keep its co-branding deals with Costco and Fidelity Investments. But such calculated decisions are why Amex has delivered annualized returns of 9% per year compounded for the last 20 years, compared with 5.2% for the S&P 500.

Looking ahead, Amex is expanding its lending services. Previously, most of its revenues came from fees. Now, rising rates will boost its top line and margins. I expect record revenues and profits within a few years. The current yield is 1.7%, with a payout ratio of just 27%. The ten-year dividend growth is 10.3% compounded, providing generous income with growth. At 15x trailing earnings versus 23x for the S&P 500, AXP seems destined to continue outperforming the market. Forward thinking Warren Buffett has not sold a single share of the 151.6 million American Express shares Berkshire Hathaway has held for decades.

