



The Next Million-Dollar Penny Stock

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Penny stocks can [make you rich](#). Need proof? Every one of these multibaggers was once a penny stock:

Company	Recent Price	CAPS Stars (out of 5)	5-Year Return
Ebix (Nasdaq: EBIX)	\$15.20	*****	810.2%
American Dairy (NYSE: ADY)	\$23.26	****	422.7%
TeleCommunication Systems (Nasdaq: TSYS)	\$8.85	****	251.2%
PolyMet Mining (NYSE: PLM)	\$2.97	***	575.0%
Life Partners Holdings (Nasdaq: LPHI)	\$19.73	**	553.3%

Sources: Motley Fool CAPS, Yahoo! Finance.

The promise of outrageous returns has periodically made even the world's best stock pickers penny stock investors. Peter Lynch [has](#) enjoyed the stock market's super-cheap seats in the past, and still does on occasion. The Royce Low-Priced Stock fund [has beaten the market for a decade](#) by betting on stocks trading near or below \$10 a share, including **1-800-Flowers** (Nasdaq: [FLWS](#)).

Even the All-Stars in our 145,000-plus [Motley Fool CAPS](#) community take to penny stocks. More than a few have been [richly rewarded](#).

Pennies from heaven

So why *not* invest in penny stocks? Well, the warning the SEC issued about them provides one excellent reason to steer clear. But what if we take the agency's definition literally, and limit our choices to stocks trading between \$1.50 and \$5 a share? And what if we further seek only four- and five-star stocks with a market cap between \$250 million and \$2 billion? Surely our [CAPS screener](#) would return some winners, right?

This week when I ran that screen, 54 stocks made the cut -- including [our last topper](#), **Agria**.

My favorite penny stock this week is **Mahanagar Telephone Nigam** (NYSE: [MTE](#)), a comprehensive telecommunications services company serving India, New Delhi and Mumbai, specifically. The details:

Metric	Mahanagar Telephone Nigam
CAPS stars (5 max)	*****
Total ratings	296
Percent Bulls	98.3%
Percent Bears	1.7%
Bullish pitches	33 out of 35

Data current as of Jan. 29.

I'm interested in state-run Mahanagar Telephone because I'm interested in India. The subcontinent potentially offers investors [the best opportunity for 2010](#). Mumbai and Bangalore, meanwhile, have

the makings of [the next great tech market](#).

Trouble is, Mahanagar Telephone isn't exactly an up-and-comer. The company was founded in 1986 and still gets the bulk of its revenue from basic fixed-line services. Cellular accounted for only 20% of the business as of last March's fiscal 2009 report.

Investors apparently don't like that ratio. But they may also be overselling the stock. Over 90% of the market cap is in cash and short-term investments. That effectively means that investors are paying merely \$0.10 for each dollar of sales. Unless bankruptcy is imminent, that's far too low, in my opinion.

Now it's your turn to weigh in. Would *you* buy Mahanagar Telephone Nigam at today's prices? Let us know by [signing up](#) for CAPS today. It's 100% free to participate. You can also weigh in via the comments box below.

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