Should You Buy These “Most Hated” Stocks?

Description

Both **Bombardier Inc.** (TSX:BBD.B) and **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) are on Canada’s most hated stocks list right now. Let’s take a look at the two companies to see if either offers investors a buying opportunity.

Bombardier Inc.

The story at Bombardier continues to go from bad to worse. A couple of weeks ago I wrote about Bombardier’s precarious cash situation. A few days later, the company announced the shutdown of its Learjet operations and the stock tanked.

The problems at Bombardier have been ongoing for a number of years and the current outlook from an investment point of view is still bleak.

Airlines normally pay for planes once they are delivered. This is a big problem for Bombardier because it desperately needs some cash before the first part of 2016 when a US$750 million debt issue is due.

The company continues to burn through funds at an alarming rate, and there is little confidence among analysts that the company will be able to meet its year-end deadline to deliver the first round of its new CSeries jets. This means Bombardier will probably have to raise cash in the coming months.

Raising funds is going to be expensive right now. Issuing shares will be extremely dilutive and the bond market is going to want a hefty premium for assuming the higher risks.

At this point, investors should probably steer clear of the stock. The dividend is probably at risk and the stock will likely come under further pressure once an announcement is made to raise more cash.

Cameco Corporation

Cameco has been a disappointment for shareholders in the past few years as the global market for uranium has continued to remain weak following the nuclear reactor disaster in Japan.

Uranium prices bottomed below US$30 per pound in the summer and have since drifted back toward the $40 mark, but remain near multi-year lows.

Despite the difficult market conditions, Cameco remains profitable. The company has implemented a strict cost-reduction program over the past two years, and managed to deliver adjusted earnings of $93 million in Q3 2014.

The long-term outlook for uranium looks good. Cameco expects 90 net new reactors to begin operation in the next 10 years. This should boost global uranium demand to 240 million pounds from the current level of about 170 million pounds.

Japan is expected to restart two of its reactors in 2015, and analysts predict the country will eventually restart as many as 30.

The big question mark overhanging Cameco right now is a nasty tax battle with the Canada Revenue Agency (CRA). Cameco says its exposure could be as high as $650 million if it loses the fight.

A negative decision would put the dividend at risk and could send the shares significantly lower.

Should you buy?

Both stocks are risky right now. I would definitely avoid Bombardier until it actually starts to deliver its new CSeries jets. Cameco is probably a good long-term hold, but there is a risk of short-term weakness given the issues with the CRA.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:BBD.B (Bombardier)
3. TSX:CCO (Cameco Corporation)

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