Bombardier, Inc. or Penn West Petroleum Ltd.: Which Company Will Survive?

Description

Bombardier, Inc. (TSX:BBD.B) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) have fallen on hard times, and both stocks now trade for less than a toonie.

Contrarian types have been kicking the tires lately in the hope of picking up a deal, but big risks remain for both stocks.

Let's take a look at the two companies to see if one is more likely to make it.

Bombardier

Bombardier is struggling to get its beleaguered CSeries jets certified and delivered before it runs out of money. The program is already more than two years behind schedule and at least $2 billion over budget.

More concerning may be the fact that Bombardier has not signed a new order for the planes in over a year. Analysts have different views on the reasons. Some say customers are simply waiting for the jets to finally pass all the tests before they commit their money. Others believe the market has lost interest because low fuel prices have erased much of the competitive advantage offered by the new planes.

Regardless of the reasons, the company has its back against the wall. Bombardier is sitting on US$9 billion in long-term debt, and cash is running out quickly. Management has few options left for raising money without annihilating shareholders, and the market is starting to sense that the company is getting desperate.

The contrarian case is that Bombardier might be able to raise enough money through an IPO of its rail business to cover the costs of getting the CSeries completed over the next few months. Once the certification is in hand and the first jets are delivered, cash and new orders should start rolling in.

If that situation pans out, the stock could certainly double from its current price of about $1.60 per share.

Penn West

Penn West traded for $45 per share in the summer of 2006. Since then the stock has been on a gradual slide and bottomed out in August at $0.60 per share. That’s one of the worst wealth wipe outs in the Canadian market.

Bankruptcy seemed inevitable just two months ago, but a recent string of asset sales and a recovery in oil prices has some market watchers thinking the company might just make it.

Like Bombardier, Penn West has a debt and cash flow problem. The fall in oil and gas prices has reduced funds from operations to a point where the company can’t meet its obligations and spend the money needed to expand production on its properties.

Many observers think it is just a matter of time before a larger player with a solid balance sheet takes out the stock. The idea makes sense if the long-term outlook for oil prices is strong because Penn West owns an attractive portfolio of light oil and gas assets that would be lucrative at higher oil prices.

Aside from betting on a takeover premium, investors are looking at the company’s sale of more than $800 million in assets in the past six months and wondering if management might actually get the debt level down enough to make it through the oil rout.

The stock is trading at $1.40 per share, more than double the low hit in August. If management can unload more assets in the next few months and if energy prices rally, Penn West could surge.

Should you buy?

The Quebec government might bail out Bombardier, but shareholders will probably be wiped out by then. Penn West could end up being acquired, but the eventual buyout price might be lower than the current one.

At this point, both stocks are still extremely risky bets and investors should probably look for other opportunities in the market.

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1. Energy Stocks
2. Investing

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1. Editor's Choice

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aswalker