



## Bombardier, Inc. vs. Teck Resources Ltd.: Which Is the Better Turnaround Play?

### Description

There's something about a stock that's fallen 50%, 75%, or even 90% that gets me a little excited.

Investing in turnaround companies certainly isn't for the faint of heart. There's a reason why a stock has fallen more than 50%, and market sentiment isn't the answer. These types of stocks have something seriously wrong with them. Oftentimes, bankruptcy is the word on everyone's mind.

But there can be huge profits for investors who get in on the ground floor of a turnaround. Most investors are happy getting 10% per year on their money. A successful turnaround can double, triple, or more in just a short period of time. Adding that to a portfolio can really supercharge returns.

The big issue is choosing the best turnarounds. Obviously, this is easier said than done, but generally companies with low debt, good management teams, and fixable problems are the ones who ultimately recover.

Which of **Bombardier, Inc.** ([TSX:BBD.B](#)) and **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) is the better turnaround play? Let's take a closer look.

### The case for Bombardier

Bombardier has two big things going against it. The company has been unable to fix its delay issues with the new CSeries line of regional jets, and the balance sheet is a mess.

Back in 2013 and 2014, orders for CSeries jets were brisk. Airlines were in a spending mood, and many were excited about Bombardier's promises of great fuel economy and quieter engines. But after the company announced (twice) that deliveries would be delayed, customers grew weary. Bombardier's competitors aren't suffering from the same sorts of issues, so they've been getting the orders.

These delays wouldn't be so bad if it wasn't for the sorry state of Bombardier's balance sheet. The cash burn has been particularly worrisome. At the beginning of 2015, the company was sitting on \$5.3 billion in cash. By September 30, that had shrunk to \$2.8 billion. And remember, Bombardier raised

almost \$3 billion in fresh capital by issuing both debt and equity back in the first quarter.

All of this sounds very negative, but there's still hope for Bombardier yet.

What the company needs is fresh capital.

The Quebec government has already stepped in, giving the company a US\$1 billion lifeline in exchange for a stake in the CSeries program. The company has already started to pressure Ottawa for a similar pledge. If it could get a little more capital from the federal government and some from a potential IPO of the more stable train-making side of the business, that should be enough cash to get it through this rough patch. Once revenue from the CSeries starts coming, things should be a lot better.

## **Teck Resources**

Teck is struggling because the price of metallurgical coal is trading at a multi-year low. It's that simple.

The company is doing all it can while waiting for the commodity to recover. It has laid off workers and idled some of its production. The price of oil declining has helped as well. Because of these savings, results actually haven't been so bad. If it wasn't for a giant asset write-off in the most recent quarter, the company would be profitable thus far in 2015.

What has investors really concerned is Teck's exposure to Fort Hills, an oil sands project. Teck's 20% share in the project will cost it approximately \$1.8 billion between now and 2017, when production is scheduled to start.

Teck's management is confident the company will have enough to pay for its obligations at Fort Hills, and I tend to agree. It's sitting on nearly \$1.5 billion worth of cash as of the end of the third quarter and is free cash flow positive. And if it needs to borrow, the company has an unused credit facility worth \$3 billion it can draw upon.

Ultimately, I'd say Teck has a better recovery potential than Bombardier. The miner has the better balance sheet, and it isn't bleeding cash. Teck's recovery will need to be commodity driven, but at some point, the price of coal will recover. And over the long term, Fort Hills should be a good asset to own, even if oil only modestly recovers.

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## **TICKERS GLOBAL**

1. NYSE:TECK (Teck Resources Limited)
2. TSX:BBD.B (Bombardier)
3. TSX:TECK.B (Teck Resources Limited)

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