Will These 3 Struggling Stocks Survive 2016?

Description

If a stock goes to zero, so does your investment. That much is obvious.

The ironic part is sometimes a bankruptcy can be a positive for a company. Sure, **General Motors** lost a lot of investors a lot of money, but its bankruptcy shed the company of both its massive debt obligations and the overly generous perks given out to unionized workers during better times.

No executive team wants to guide a company to bankruptcy. Not only are they almost guaranteed to lose their jobs in the reorganization, but they go down in the history books as the folks ultimately responsible for the downfall–even if the situation is much more complex than that.

Most stocks on the Toronto Stock Exchange aren't in any danger of going bankrupt. But there are a few that could very well end up costing investors all of their initial investment. Will these three companies be among them?

Penn West

Penn West Petroleum Ltd. (TSX:PWT)(NYSE:PWE) is suffering from a few different issues. The biggest one, of course, is the price of crude going down. If oil was $80 per barrel, the words Penn West and bankruptcy wouldn't be uttered in the same sentence.

The other issue weighing down the company is its massive debt. The company has been selling off non-core assets over the last couple of years, but it hasn't been enough. Net debt stands at approximately $1.9 billion, which is a lot for a company with a market cap of less than $700 million.

Management has made many moves to try to conserve cash. The dividend has been suspended and capital expenditures have been cut to the bone. A hedging program has been put in place.
Drilling costs have been cut significantly. And new, more relaxed debt covenants have been negotiated with creditors.

Ultimately, the price of oil dictates if Penn West can survive. If crude recovers relatively soon, Penn West can probably avoid bankruptcy. If not, the company might not survive the year.

Sears Canada

Many retailers have gone bankrupt in Canada over the last few years. Companies like Laura Canada, Danier Leather, Jacob, Mexx Canada, and countless others have closed up operations. And let’s not forget about **Target** famously exiting Canada a little over a year ago, too.

Many pundits are saying **Sears Canada Inc.** (TSX:SCC) will be next. When you look a little closer at the numbers, I’d say they’re on to something. In the company’s most recent quarter–a quarter which included the all-important Christmas season–Sears Canada lost $65 million before one-time items pushed the bottom line to a positive number.

Sears is slowly monetizing its real estate assets. But most of the good assets are already sold. With operations continuing to struggle, it’s obvious Sears Canada will eventually pull the plug on its retail business. When that happens is anyone’s guess.

Valeant

The story of **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) has been as compelling as any Hollywood blockbuster. Short sellers attacked the company, saying it was a massive fraud. Although nothing has been concretely proven at this point, it sure seems like these bearish investors were on to something.

The question is whether or not the company can survive. Bulls point to the company’s portfolio, which is stuffed with drugs that are highly profitable, as well as ownership from some of the smartest investors in the business. Bears are focusing on the company’s massive debt, its recently departed senior managers, and the constant red ink on the income statement as proof the company is still hurting.

One lesson I’ve learned about investing in turnarounds over the years is that it’s far easier to right a ship that isn’t weighed down by debt than one that is. Valeant has nearly US$31 billion worth of debt on the balance sheet, which is a staggering sum. This debt could very well be the cause of the company’s ultimate demise.

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