



Which Is the Better Turnaround Stock: BlackBerry Ltd. or Bombardier, Inc.?

Description

Both **BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY) and **Bombardier, Inc.** ([TSX:BBD.B](#)) continue to be massively popular with Canadian investors.

Both have somewhat similar tales of woe. BlackBerry dominated the smartphone market back when people substituted the term “BlackBerry” for “smartphone.” But the company didn’t do very well building a sustainable brand, which left it vulnerable to disruption. **Apple** entered the market, and the rest is history. These days, BlackBerry owns less than 1% of the world’s smartphone market.

Bombardier was also doing relatively well selling trains and small airplanes, but the company decided to take a risk and expand into larger regional aircraft. That was back in 2007. Since then, the CSeries program has been a debacle, plagued with cost overruns, engine failures, and delays in deliveries to key customers.

Both stocks are flirting with multi-year lows. Bombardier shares have recovered nicely after temporarily falling below \$1 each earlier this year, but are still down more than 70% over the last five years. BlackBerry’s performance has somehow been worse, with that stock down 79% since 2011.

Both these stocks are beaten up, that much is for sure. Do either of them have much potential for a turnaround? Let’s take a closer look.

The case for BlackBerry

I’m a firm believer that BlackBerry needs to get out of the phone business.

Volumes keep persistently going down, even though the company is taking steps to try and increase its market share. The Priv has been the latest effort, a phone which ditched BlackBerry’s operating system in favour of Android. Sales started out brisk but have since cratered.

According to analyst estimates, BlackBerry could be looking at some US\$400 million a year in revenue just from royalty payments if it gets out of making handsets. If it were out of the device business, it would be free to sue competitors who are infringing on its patents without fear of retribution.

BlackBerry's future lies in software. The company recently used some of its war chest to acquire two software companies, which led to it more than doubling software revenues on a year-over-year basis in the most recent quarter. With nearly US\$2.4 billion in cash still on hand and a solid balance sheet, BlackBerry has plenty of potential to make further acquisitions in the software space.

The case for Bombardier

The good news for Bombardier is that most of its CSeries struggles are behind it.

Last year was not a good year for the company or the regional jet program. It didn't get a single firm order, even though the airline sector was doing well. An engine failure during a test flight pushed back deliveries to mid to late 2016. And introductions of new designs from **Boeing** and Airbus didn't help either.

So far, 2016 has been much better. It started off with **Air Canada** committing to order 45 CS300 planes, an agreement that includes options for 30 more. Air Baltic and **Delta Air Lines** gave the company a firm order for seven and 75 planes, respectively. The Delta order also came with options to buy 50 more aircraft.

The big issue with Bombardier is the company's balance sheet. Unlike BlackBerry, which has a net cash position, Bombardier is swimming in debt. As of March 31, the company had approximately US\$9.4 billion in total debt. That was offset by US\$3.8 billion in cash. But still—that's a lot of debt.

Most analysts agree that Bombardier should have enough cash to get it through these lean times. If not, it is currently in negotiations with the federal government for yet another bailout, just months after receiving US\$2.5 billion from various parts of the Quebec government.

Which to prefer?

While I think there's potential for terrific gains if Bombardier figures out its mess, the company's debt scares me.

BlackBerry is the safer play. It has a better balance sheet, a more flexible business model, and CEO John Chen has been successful turning around struggling companies before. It might not offer the upside Bombardier does, but that's okay. Turnarounds need a margin of safety.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)

3. TSX:BBD.B (Bombardier)

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