Will These 3 Stocks Survive the Rest of 2016?

Description

Buying beaten-down assets can be a dangerous game. Sure, there's profit to be made if investors get the call right. But if they're wrong and a company declares bankruptcy, 100% of their investment goes down the drain.

As a deep-value investor, I'm constantly worried about this. Riding a stock to zero sure doesn't help returns.

There are certain steps investors can take to guard against this. They can avoid companies with broken business models, huge amounts of crippling debts, or ones with known accounting issues. Those are three huge red flags.

Here are some Canadian companies in danger of filing for bankruptcy before the end of 2016.

Performance Sports

Performance Sports Group Ltd. (TSX:PSG) owns some of the best brands in the sporting goods market, including Bauer in hockey and Easton in baseball. Unfortunately, its balance sheet is also burdened with US$465 million in debt compared to a similar amount of tangible assets.

Back in June, Performance Sports lowered its 2017 guidance, citing weakness in its baseball markets and the bankruptcy of key retail partners Sports Authority and online retailer Team Express.

Shares of the company fell more than 50% in trading on Monday after news the company wasn't able to file its annual report on time, which triggered a technical default. The delay is caused by an investigation of the audit department of the board of directors regarding its financial statements. That is never something investors want to hear.

The company is currently in negotiations with lenders with the probable outcome some sort of debt-for-equity swap that could leave current shares nearly worthless. That's what usually happens in these types of scenarios.

Concordia

Oh, how the mighty have fallen. A year ago, shares of **Concordia International Corp.** (TSX:CXR)(NASDAQ:CXRX) were flying high, trading around $100 each on the TSX. A year later they're $12 each, representing a decline of nearly 90%.

Two things hit Concordia. The first was **Valeant's** fall from grace, which suddenly exposed some of the weaknesses of the business model to the world, causing investors to rapidly hit the sell button and ask questions later.

The bigger issue continues to be Concordia's debt. It owes more than US$3.2 billion to creditors after its big acquisition of AMCo back in 2015 with interest rates as high as 9.5%. That's a lot to pay in today's world.

Management isn't exactly bullish on the future either. The company cut its EBITDA guidance for 2016 from US$625 million to US$525 million due to a move in the British pound after the Brexit and increased competition in some key markets. If cash flows continue to erode, bankruptcy could be next.

Lightstream

Lightstream Resources Ltd. (TSX:LTS) took on a lot of debt after making multiple acquisitions in better times. Now that crude is under $50 per barrel, this debt is threatening the company with bankruptcy.

The company is currently in negotiations with lenders to convert some of that debt into equity, but the plan has hit a snag because Lightstream can't get sufficient commitments to enter some of its debt into a new credit facility.

Without some sort of organized deal, the next step is bankruptcy protection. Either way, it's doubtful that shares will be worth much of anything when this is all sorted out–a fact reflected in their price of $0.135.

Conclusion

There's no guarantee these companies go bankrupt, especially Concordia, which could still easily recover. Still, investors should avoid these companies; they're just too risky today. The good news is there are plenty of other choices out there.

CATEGORY

1. Investing

Category

1. Investing

Date
2025/09/11
Date Created
2016/08/16

Author
nelsonpsmith