



Bombardier, Inc. or Cameco Corporation: Is 1 a Better Contrarian Bet?

Description

Contrarian investors are constantly searching for beaten-up stocks that could be on the cusp of a major turnaround.

Let's take a look at **Bombardier, Inc.** ([TSX:BBD.B](#)) and **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if one deserves to be on your buy list.

Bombardier

Bombardier's beleaguered CSeries jet program has been a nightmare for investors with production delays and budget overruns pushing the balance sheet to the brink.

Things got so bad last year that Quebec and the province's pension fund had to commit US\$2.5 billion to keep the company afloat. The market initially thought the support would be sufficient, but confidence began to wane again in early 2016, and the stock tumbled below \$1 per share.

A sudden surge in CSeries orders and the delivery of the first new jet brought some life back into the name, pushing the share price up to the \$2 mark, where it held steady through the end of August.

Last month, worries returned as Bombardier said it would only deliver seven new CSeries planes in 2016, instead of the 15 jets targeted in previous guidance. This will push 2016 revenue down to the low end of expectations.

Analysts think Bombardier will need more cash in the next 12-18 months. With the balance sheet already loaded up with US\$9 billion in debt, additional funds are expected to come from the federal government.

Meanwhile, the turnaround efforts continue. Bombardier just announced another round of layoffs that will reduce the workforce by 10%. Quebec will lose 1,500 jobs.

Three years ago this stock was worth \$5. Investor can buy Bombardier today for \$1.80.

Cameco

Canada's top uranium producer is battling a difficult slump.

The Fukushima nuclear disaster in Japan forced the country to shut down its entire fleet of reactors, triggering a crash in uranium prices from US\$70 per pound to the current price of about US\$25.

At this level, few producers, if any, can make money. Investment in new projects is being cut, and older facilities are shutting down. Cameco says primary production is actually now lower than demand, but secondary supplies are keeping the market under pressure.

Eventually, the stockpiles will be used up, and the market should rebalance.

Japan is slowing putting its fleet back into service, and more than 60 new reactors are under construction. As a result, annual uranium demand is projected to rise 50% by 2030.

Cameco is a low-cost producer with some of the best resources on the planet, so the stock looks attractive for a long-term contrarian pick, but there is another issue.

The company is in a nasty battle with the Canada Revenue Agency (CRA) regarding taxes owed on revenue generated by a foreign subsidiary. If Cameco loses the case, which won't be decided until late 2017, it could be on the hook for \$2 billion.

Cameco traded for \$40 per share before the tsunami hit Japan. Today the stock is worth \$10.70.

Is one a good bet today?

Bombardier's worst days are probably in the rear-view mirror, but debt concerns remain, and the company is battling for rail and plane contracts in very competitive markets. With heavy government involvement, shareholders have to wonder if their best interests will be served.

Cameco is probably the better long-term pick, but tough market conditions are expected to linger in the near term, and the CRA case remains a big threat.

For the moment, I would keep both stocks on your radar, but look for other contrarian opportunities.

CATEGORY

1. Investing

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1. NYSE:CCJ (Cameco Corporation)
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