Bombardier, Inc.: Take Profits and Buy This $2 Stock With Proceeds

Description

Last year around this time, **Bombardier, Inc.** (TSX:BBD.B) stock was languishing around $1; its business was in complete disarray with a potential bankruptcy in its future, its CSeries jets failed to attract new orders, and the train business couldn't deliver a quality product on time if its life depended on it.

Fast forward to today, and Bombardier stock is up a whopping 117.5% over the past 52 weeks — an indication that the worst may be over for the maker of planes and trains.

Fool.ca contributor Andrew Walker recently discussed whether or not Bombardier's latest rally is sustainable; in the 10 days since the article appeared, its stock has basically gone sideways, suggesting investors might be coming to their senses. Furthermore, with NAFTA looking more and more like it's going to be torn down and rebuilt, Bombardier's position in the world is anything but certain, especially if it continues to over promise and under deliver with customers.

I have never been a fan of Bombardier's because its financial reports are filled with way too many footnotes that the average investor likely doesn't understand and the fact that it relies far too much on corporate welfare from various levels of government to remain competitive. It's a lethal combo.

Yet you can't ignore a $31 billion backlog — can you?

But that's Bombardier's game. Keep pushing the ball farther down the road while preaching the same old "things are getting better" speech, and retail investors will continue to blindly follow it.

At the end of the day, Bombardier is ready for a correction — maybe not all the way back down to $1, but certainly to $2 on any bad news hitting the street.

Word to the wise: If you bought anywhere below $1.50 in 2016, I'd be taking profits. Heck, I'd be tempted to sell even if I bought around $2, where it traded for most of last summer.

Now, I'd seriously consider investing some of the proceeds in another $2 stock that's been struggling, perhaps even more so than Bombardier.

I'm talking about **Torstar Corporation** (TSX:TS.B), owner of the *Toronto Star*.

It's a sign of the times in the media business that Torstar has a market cap 1/40th Bombardier's. Oh, how the mighty have fallen. A decade ago, Torstar had a market cap of $1.5 billion and one-fifth Bombardier's.

However, a Business News Network appearance January 23 by Agilith Capital money manager Patrick Horan, who talked about the upside potential of Torstar, got me thinking about Torstar's stock.

Horan's argument goes like this:

- It has no debt, having sold Harlequin Romances in 2014 for $455 million and its Toronto printing plan this past September for $54 million.
- Prem Watsa's **Fairfax Financial Holdings Ltd.** owns almost 28% of Torstar's stock, and although acquisition talks were called off last summer, the value investor is rumoured to want to restart those talks. If he's interested, you have to be at least mildly intrigued.
- In July 2016, it paid $180 million, or about $2 per share, for a 56% stake in VerticalScope, a leading provider of online discussion forums for automotive enthusiasts as well as other popular verticals.
- Its other equity investments include a 19% interest in Black Press, a 19% interest in Blue Ant Media, and a 33% in the Canadian Press.
- Its digital business continues to grow while the print side continues to falter.
- Rising interest rates will bring welcome relief to its pension funding.
- It has around $1 per share in cash and cash equivalents.
- It has a 5.2% dividend yield.

At the end of the day, Torstar's stock is trading below $2 per share while the sum of its parts, Horan argues, is worth $4.

Clearly, Torstar has to figure out how to fix the legacy portion of its business. It tried by introducing *Star Touch* in 2015, the tablet version of the paper, but readers didn't take to it like management expected and layoffs ensued.

However, advertisers are said to like the format, so it's possible that the *Toronto Star* will follow many papers like *La Presse* down the digital path, eliminating its print edition during the week and jazzing up the weekend edition. It's a risk given that print generates 42% of Torstar's annual revenue, but it's a risk worth taking.

As long as Prem Watsa's still interested, I'd have no problem collecting a 5.2% cheque until this thing plays out.

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washworth