



Contrarian Investors: Should You Own Baytex Energy Corp. or Bombardier, Inc.?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) and **Bombardier, Inc.** ([TSX:BBD.B](#)) have given up a big part of their recent gains.

Let's take a look at the two beleaguered stocks to see if one might be an attractive contrarian play right now.

Baytex

Baytex was a \$48 stock in the summer of 2014. Today, investors can pick it up for about \$4.80.

To say the meltdown has been painful is an understatement, but the stock maintains a strong following with fervent fans and critics.

Contrarian types who like the name are drawn to the impressive resource portfolio located in the Eagle Ford play as well western Canada.

Baytex has managed to hold on to most of its assets through the rout, so there is significant upside potential if oil can extend the 2016 recovery. Early last year, at oil prices that were much lower than current levels, Baytex figured its net asset value was a conservative \$11 per share.

Critics of the stock worry that the large debt position and restricted access to capital make Baytex a high-risk pick in the event oil takes another nosedive.

Baytex finished 2016 with net debt of \$1.77 billion. At the time of writing, the company has a market capitalization of \$1 billion, so it's easy to see why investors are concerned. Baytex had to reduce its credit lines as a part of its negotiations with lenders, which means there is less financial flexibility to ride out another downturn.

Management is doing a good job of living within the company's cash flow at current oil prices, and production growth is expected to be 3-4% by the end of 2017.

If you are convinced oil is headed higher, Baytex looks attractive, but recent weakness in the market suggests another oil plunge could be in the cards.

Bombardier

Bombardier was pretty much left for dead by investors in early 2016, but the company managed to pull a few rabbits out of the hat at the last minute and turned things around.

What happened?

Investors sold the stock down below \$1 per share in February 2016 as concerns about the company's cash burn and struggling CSeries sales outweighed the US\$2.5 billion commitment provided by Quebec and the province's pension fund.

Bombardier hadn't sold a new CSeries jet since September 2014, and with oil at US\$30 per barrel, the fuel-efficient jets were having trouble competing with older, cheaper models.

At the last minute, **Air Canada** stepped in and signed up for a large CSeries order. A few months later, **Delta Air Lines** joined the party.

Suddenly, the CSeries order book was above Bombardier's 300-plane target, and the stock rebounded to \$2 per share. It recently hit a high above \$2.70, but it's now back to about \$2.10.

Bombardier delivered seven CSeries planes in 2016 and expects to put at least another 30 into commercial service in 2017. This means the program is starting to generate revenue, which is critical given the large debt position and ongoing cash burn.

What are the risks?

Bombardier had to provide significant discounts to get the Air Canada and Delta orders, so investors want to see better pricing on future deals.

CSeries revenue is coming in, but the company still expects to burn through at least \$750 million in 2017 and is carrying US\$8.7 billion in long-term debt. The current market capitalization is about US\$3.5 billion.

The Q4 2016 report showed ongoing weakness in the business jet market, and the train division is struggling to meet delivery commitments on orders for Toronto and Metrolinx.

Bombardier is on the mend, but the company isn't out of the woods just yet.

Should you buy one of these stocks?

Both Baytex and Bombardier have the potential to be big contrarian winners, but near-term risks remain significant.

Given the recent drop in oil prices, and the likelihood of a meaningful pullback in the broader market in the coming months, I would resist the temptation to buy either of these stocks today.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:BTE (Baytex Energy Corp.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/07/21

Date Created

2017/03/13

Author

aswalker

default watermark

default watermark