Better Turnaround Play: Bombardier, Inc. vs. Valeant Pharmaceuticals Intl Inc.

Description

If you're a long-term contrarian investor who's hungry for a rebound, then you've got quite a few beaten-up names to choose from. **Bombardier, Inc.** (TSX:BBD.B) and **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX) are two popular plays that have lost over half of their value over the last few years.

Both of these companies have lost credibility with a lot of investors, especially considering the disappointing sequence of events that led to the downfall of both companies. While the risk involved with these two unloved stocks is still astronomical, the potential rewards could also be of a similar magnitude to those who aren't afraid of high-risk, high-reward scenarios.

Let's take a closer look at these two popular contrarian plays to see which one you should bet on.

Bombardier, Inc. (TSX:BBD.B) simply cannot stick to a budget or deliver on time. If it weren't for the government, Bombardier probably would have been toast by now. The CSeries project has been deemed a failure as it was way overdue and exceeded its original budget. As a result, some prospective clients simply walked away in response to the horrific estimates.

The company has US$8.8 billion worth of long-term debt and US$6.6 billion worth of net debt, which is overwhelming considering the company's market cap of $5.85 billion.

The management team has plans to reduce net debt to as low as 2.5 times adjusted EBITDA, but given the company's abysmal ability to forecast, I'd take all commentary from the management team with a grain of salt.

Shares of BBD.B have been gaining positive momentum of late, but don't be tricked. The company isn't even close to being out of the woods yet.

Valeant Pharmaceuticals Intl Inc. (TSX:VRX)(NYSE:VRX)

Like Bombardier, Valeant also has a debt problem with US$30 billion in debt accumulated from the company's acquisition spree a few years ago. The company's new CEO Joseph Papa has done a great job so far of cutting debt. After a few strategic divestitures, it appears that Valeant has bought itself more time before its next round of debt becomes due.

Mr. Papa’s original goal of cutting US$5 billion in debt by February 2018 is going to be met ahead of schedule. Most of the remaining debt will not become due until 2020, so the company now has more flexibility than it did before Mr. Papa joined the team.

Now that there’s a bit of time to meet some of the longer-term obligations, Valeant can focus on growing its business again — organically this time. The company has a pipeline of drugs that may be what the doctor ordered for Valeant.

Could such drugs produce enough cash to pay back the rest of the debt?

Possibly, but we can only speculate as to which drugs will show to be promising. Only time will tell, but if a few blockbuster hits come out the pipeline, then Valeant could be on the fast track to a quicker-than-expected rebound. But don’t expect it to hit all-time highs again anytime soon.

If the drugs coming out of Valeant’s pipeline aren’t promising, then the much-anticipated Valeant rebound may be many years away, and shares could get hit even harder.

Better buy?

Both Bombardier and Valeant are high-risk plays that aren’t for beginners or the faint of heart.

If you’re comfortable with high-risk investments, and you’re keen on taking a contrarian position, I’d recommend Valeant over Bombardier, as it seems the new management team led by Mr. Papa is more predictable and has shown it can make the right moves to get back on the right track.

I would avoid Bombardier like the plague because the management team has shown many times that it can talk the talk, but not walk the walk.

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Author
joefrenette