Could This Canadian Powersports Stock Outride a Recession?

Description

Hey Canadians! When was the last time you invested in something *fun*? They say that certain luxury commodities are recession proof, such as chocolate and jewellery. But what about powersports? It's an area that has a largely wealthy fan base, and one that hardcore aficionados are unlikely to give up, even if the fiscal outlook is bleak.

If you haven't considered investing in something fun and expensive ahead of an economic downturn, you're probably not alone. But from a contrarian perspective, putting money into a physical aspect of the luxury lifestyle might make perfect sense. Below you will find what was once a subsidiary of **Bombardier** that will allow you to do just that. We'll take a look at what this stock does, how it performs, and whether or not to buy.

Your original Canadian leisure stock

The initials once stood for **Bombardier Recreational Products**, but these days you can just call it **BRP** (TSX:DOO). You probably known BRP for the Ski-Doo snowmobiles, though BRP is also known for Can-Am motorcycles (ATVs and Spyder Roadsters) as well as the Sea-Doo small water craft and SportBoats, the Lynx snowmobile, plus brands such as Evinrude Outboard Motors and Rotax internal combustion engines.

But what's this outdoor sports stock like on market fundamentals? Overvalued by 40% of its future cash flow value, BRP has a P/E ratio of 25 times earnings. That's sounds high (and it is), but it actually beats the North American leisure industry average, though not by much, which is currently 26.5 times earnings. A PEG of 1.6 times growth isn't terrible, but a negative P/B ratio does raise a red flag in terms of negative assets.

That 15.7% isn't a bad figure at all for expected annual growth in earnings, especially for a stock heavily weighted by personal vehicles. It can't be scrutinized on ROE at present, so this quality indicator falls by the wayside, though a small dividend yield of 0.51% may keep passive-income investors moderately happy while they hang on for that upside.

Does it beat the American competition?

Compare BRP with **Textron** (NYSE:TXT), an American equivalent. Textron is not strictly analogous, specializing in industrial rather than recreational vehicles, such as Bell Helicopter, Cessna Aircraft, and Beechcraft, but it should give some indication of how BRP compares as a stock.

All told, Textron is healthier on the face of it in terms of balance sheets, though not better value. Textron is overvalued today by less of a margin than BRP (15% compared to BRP's 40%), but it has harsher multiples from its P/E of 38.8 times earnings to its PEG of 2.8 times growth and P/B ratio, which, though it is at least positive, is perhaps a bit *too* positive at 3.2 times book value.

The bottom line

While BRP doesn't look super hot on market fundamentals, it makes sense that a luxury stock wouldn't be cheap. Though a wayward P/B is a cause for alarm, if you want to invest in an industry that is likely to ride roughshod over any economic downturn that the coming year or two may throw our way, outdoor leisure might be a healthy and rewarding way to go.

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Date
2025/08/18
Date Created
2018/09/01
Author
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