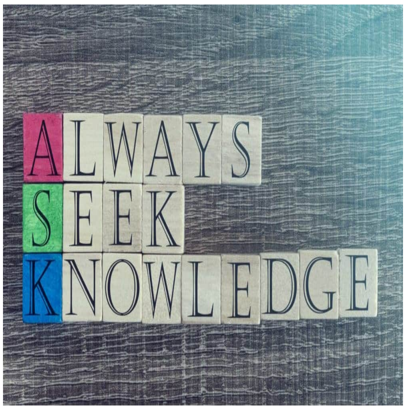

Is Bombardier, Inc. (TSX:BBD.B) or Baytex Energy Corp. (TSX:BTE) a Better Bet Right Now?

Description

Contrarian investors are constantly searching for troubled stocks that could offer big returns in the coming years.

Let's take a look at **Bombardier** (TSX:BBD.B) and **Baytex Energy** (TSX:BTE) (NYSE:BTE) to see if one might be an interesting pick today for your portfolio.

Bombardier

Bombardier appeared to be back on track, but a weak quarterly report derailed the party and investors are now wondering if Canada's plane and train maker is able to deliver on its ambitious turnaround plans.

The company's Q3 2018 earnings report came with the news that Bombardier will cut 5,000 jobs and sell two of its businesses as it strives to cuts costs and improve the balance sheet. Cash burn remains a challenge, and the US$9.5 billion debt load continues to weigh heavily.

No major orders have come in for the A220 (formerly CSeries) since the company signed over a 50.1% stake in the division to **Airbus**. Investors had hoped international airlines would swoop in to buy the fuel-efficient jets once Airbus took control of the program.

In addition, the announcement of an investigation into an executive share-sale program recently caused a panic sell-off in the stock. Bombardier's share price fell to a closing low of $1.67 on November 16. It recovered to $2.50 in the following days, but is back down to $2.20 at the time of writing.

In July, the stock traded above $5.40 shortly after the CSeries transferred to Airbus.

News of a significant A220 deal or a big rail contract win could certainly send the stock back above $3 per share, but investors should be careful about chasing Bombardier right now, even after the huge pullback. The debt situation is going to become an issue if the company doesn't sort out its cash flow challenges.

Baytex

Debt is the demon at Baytex as well. The company made a large acquisition right at the peak of the oil market in June 2014. The Eagle Ford assets in Texas that were acquired hold significant long-term potential for the company, but the plunge in oil prices shortly after the deal closed put Baytex in a rough spot and management had to move quickly to keep the business afloat.

Baytex cut its generous dividend and renegotiated terms with lenders early enough to avoid the need to sell off its best assets. That's why some contrarian investors are kicking the tires on the stock.

However, low Western Canadian Select (WCS) prices are hurting the Canadian operations. Alberta's recent decision to impose production cuts on the sector is starting to help close the price differential between WCS and WTI, but pipeline bottlenecks aren't going away in the near term.

Baytex traded for $48 when times were good. Today, investors can buy the stock for about $2.60 per share.

Is one a better contrarian bet?

Bombardier and Baytex both carry significant risk despite the large sell-offs in the stock prices. Volatility should be expected, and investors who are willing to take a shot should keep the position small.

That said, Baytex probably offers the best opportunity for a near-term rebound. Oil prices could recover in 2019 and the stock has shown it has strong upside potential when market sentiment shifts in the energy sector.

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