Is Baytex Energy Corp. (TSX:BTE) or Bombardier Inc. (TSX:BBD.B) Stock a Buy Right Now?

Description

Contrarian investors are constantly searching for oversold stocks that might offer a shot at some big gains once sentiment and the market improves.

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

Baytex

Baytex had the misfortune of closing a major acquisition right at the peak of the oil market. The company bought Aurora Oil and Gas in June 2014 for $2.8 billion in a deal that added important assets in the U.S. Eagle Ford shale play.

At the time, WTI oil traded for US$100 per barrel and Baytex anticipated a surge in revenue and free cash flow as a result of the purchase. In fact, management increased the dividend by 9% to $2.88 per share on an annualized basis.

Unfortunately, oil prices began their decline shortly after the deal closed, and within a matter of months, Baytex was forced to slash the distribution to protect cash, sending the stock price crashing from $48 to $15 per share.

Four years later, the company is still alive, but the debt that it took on when it made the Aurora purchase is still an issue. The merger with Raging River Resources in 2018 helped ease the balance sheet concern, but the steep plunge in oil prices through the fourth quarter has hit the stock hard.

At the time of writing, Baytex trades for $2.25 per share. That's off the December low below $2, but oil will have to stage an extended recovery if this stock is to deliver sustainable gains.

Investors could see a sharp spike on an oil bounce, but any contrarian bet should be kept small at this point.

Bombardier

Bombardier was a hot stock through the first half of 2018, rising from $3 per share to a high of $5.40 in July. Enthusiasm surrounding the transfer of the CSeries jet program to **Airbus** drove much of the gains, but the anticipated wave of new deals for the jets, renamed A220, did not materialize and the stock started to slide. In addition, Bombardier announced Q3 results that showed cash burn remains an issue, and questions concerning an executive stock sale plan added to the pain.

With US$9.5 billion in debt on the balance sheet, Bombardier is racing against the clock to turn the cash flow situation around. Management remains upbeat that the company is on target to meet its goals, but big chunks of the debt are starting to come due next year, and refinancing could be expensive.

Via Rail just chose **Siemens** over Bombardier for its new trains. The loss follows the decision by Montreal early last year to go with **Alstom** for its light-rail expansion.

On the positive side, Bombardier recently won a rail contract for New Jersey, which is good news given that the company lost high-profile bids in Chicago and Boston in the past couple of years.

The stock currently trades at $2 per share. That might appear cheap, but I would wait to see how things went in Q4 2018 before testing the water.

The bottom line

Contrarian investing requires good timing. Both Baytex and Bombardier could certainly deliver big gains from their current positions, and many pundits might argue the stocks are oversold. However, additional downside risk remains, and it might be wise to wait for better days to arrive before buying these stocks.

Other contrarian plays could be more attractive right now.

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