Investors Beware: 3 Zombie Companies I'd Avoid at All Costs

Description

Zombies aren't just something avoided by your favourite characters on TV or in movies. They can also be deadly for your portfolio.

A zombie company has a few important characteristics. The most important is the lack of growth. Like the undead, a zombie company just staggers forward, looking desperately for something that will increase the top line. Despite many exciting growth initiatives, nothing really changes.

In fact, most zombie companies just keep slowly getting smaller. Some of these names will entice the deep-value crowd, who will look at the bargain-basement price of shares and get excited. Trust me; investing in one of these names is likely to end in tears. You'll want to avoid them at all costs.

Let's take a closer look at three TSX zombie companies, the kinds of organizations that need some major turnarounds to ever return to former glory. I'm not optimistic.

Bombardier

When I last visited **Bombardier** (TSX:BBD.B) in an article, I wrote the company was essentially doomed. I still stand by that statement.

Despite selling off large chunks of its aircraft manufacturing business, Bombardier is still dealing with a bloated balance sheet and tepid profit margins. Debt has ballooned to more than US$9.3 billion, although that is offset by more than US$3 billion in cash. Still, Bombardier has a market cap of just $3.9 billion. That's too much debt.

While there are things to like about the transportation division — including strong demand, steady revenue projections, and a nicely sized backlog — ultimately making subway cars isn't a very lucrative business either. Cities are looking for nothing more than the lowest price on what they view as commodity products. The transportation division is expected to post 5% operating margins for 2019. That is not what investors want to see.

Bombardier shares are down 20% thus far in 2019, and I see further declines coming.

Indigo

I have a bit of a confession to make. I love **Indigo Books and Music** (TSX:IDG) stores. I pop in whenever I'm in the mall.

There's just one problem. I never buy anything. I snap pictures of books that look interesting and then buy them at **Amazon** or borrow them from the library.

Judging from Indigo's recent results, I'm not the only person browsing without buying anything. Over its last 12 months, the retailer has lost more than $40 million on sales of just over $1 billion. Sales keep plunging, too; the company's most recent quarter saw a 7.6% decline in the all-important same-store sales metric. All segments were weak in the latest quarter, including general merchandise. It wasn't that long ago when Indigo was telling investors diversifying into general merchandise would save the company.

Indigo shares trade at close to a 52-week low today. I don't see how the company will recover.

Reitmans

Speaking of underperforming retailers, next up is women's fashion retailer **Reitmans** (TSX:RET.A), a staple of seemingly every mall in Canada. Between the company's Reitmans, Addition Elle, Thyme, Pennington's, and RW & Co brands, chances are your local mall has a store or three.

The company has been shuttering locations like crazy over the last few years. In 2012, it boasted nearly 1,000 stores across Canada. That number has dwindled down to some 600 locations, and I'm sure there are more on the chopping block. Most of its stores just aren't busy enough to justify expensive mall rents.

Recent results saw total sales decrease by more than 6%, although much of that decline can be attributed to 45 stores closing. Same-store sales were also weak, falling 1.9%. The month of August was comparatively worse, with the company reporting same-store sales in the month fell 3.6%.

With those kinds of results, it's little wonder why Reitmans shares are down nearly 50% over the last year.

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Date
2025/08/19
Date Created
2019/10/08
Author
nelsonpsmith