



Is it Time to Start Selling BRP (TSX:DOO) Stock?

Description

Seventy-two percent of economists surveyed by the National Association for Business Economists in August predicted a U.S. recession by the end of 2021. Over 52% of economists believe that a recession could strike by the end of 2020.

United Nations Conference on Trade and Development's flagship report in 2019 says the possibility of a recession in 2020 is very real. Trade wars, currency fluctuations, and Brexit have come together to form a bad cocktail, and policymakers across economies don't look like they have understood the gravity of the situation.

Here's a question for you: If naysayers' voices are getting stronger and practically everyone agrees that a recession is in the offing, do you want to buy a jetski? Or a snowmobile? No, right? Yeah, I didn't think so. That's why I'm negative on **BRP** ([TSX:DOO](#))([NASDAQ:DOOO](#)), the world's largest seller of snowmobiles (50% market share) and jetskis (55% market share).

BRP stock went from \$15 in February 2016 to just over \$70 in September 2018. It more than quadrupled in this period! The last 13 months have seen the stock fall to \$56.60, where it is trading currently.

A look at the financials

BRP's numbers for the second quarter of 2019 haven't been bad. Revenues grew 21% to reach \$1.5 billion for the quarter, representing a record for a second quarter at BRP. The gross profit margin ended at 22.5% — a decline of 70 basis points from last year's second quarter. Normalized EBITDA was up 16% to \$168 million. The company generated \$75 million of free cash flow. Why then do we want to stay away from BRP?

BRP has negative shareholder equity, which means its liabilities are more than its assets, and this does not bode well for the company, especially if a recession is around the corner. BRP has a debt to the tune of \$1.64 billion. That said, BRP's debt is well covered by its operating cash flow. A BRP stockholder doesn't get good dividends. At 0.71%, it has one of the lowest yields on the TSX.

BRP brands include Ski-Doo and Lynx snowmobiles, Sea-Doo watercraft, Can-Ams (off-road and on-road vehicles), Evinrude outboard engines, Rotax engines for karts, motorcycles, and recreational aircraft, and several kinds of boats such as Alumacraft, Telwater, and Manitou Pontoons. Every single item in the BRP stable is a discretionary spend. They are fun things to have at home, but life would go on just fine without them, especially if you are middle class.

Most of the BRP brands rely on financing to enable their consumers to purchase their products. If a recession strikes, BRP's customers will simply delay their purchase until they are sure about the economy again.

CEO Jose Boisjoli wasn't too concerned about talks of an impending slowdown. On the Q2 earnings conference call, he said, "Despite talk of an economic slowdown, our industry remains healthy, our dealer traffic is good and we continue to observe strong retail trends in August."

The verdict

It doesn't seem that everyone on the street shares his view. In fact, institutional investors have already started making an exit. As [Fool contributor Ryan Vanzo](#) reported in late 2018, 8.7 million shares, owned by institutional investors, including Bain Capital, were sold at a price of US\$47 (around \$60 Canadian).

Right now, all the numbers look good for BRP, but it will take just one piece of bad news to throw this vehicle out of gear.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:DOOO (BRP Inc.)
2. TSX:DOO (BRP Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date

2025/08/30

Date Created

2019/10/28

Author

araghunath

default watermark

default watermark