2 Turnaround Stocks to Avoid

Description

Turnaround stocks hold a certain appeal to investors. On the one hand, they represent a second (or third) chance for a company to breathe new life into a broken business model, which is appealing to long-time believers in the stock. On the other hand, there are times when a turnaround results in a company changing its business entirely, effectively becoming a new company.

Unfortunately, not all turnaround stocks are worthy of a second look.

Different business model, same problems

There are few stocks on the market today that are as polarizing as **BlackBerry** (TSX:BB)(NYSE:BB). The one-time king of the smartphone world is now a fraction of its former self and has stepped away from the smartphone business entirely.

Following a multi-year licensing agreement with regional vendors to develop and bring to market devices with the BlackBerry name, the company recently announced that it wouldn't be renewing that agreement when it expires later this year.

That leaves BlackBerry as a software pure play, with the company focusing on the emerging and potentially lucrative world of IoT devices and autonomous driving. BlackBerry does hold promise in the autonomous driving segment, as its QNX operating system is already installed in over 120 million vehicles today, but a full-fledged autonomous solution is still years away.

That's not to say BlackBerry isn't improving in other areas. In the most recent quarter, the company reported non-GAAP revenue of $280 million, representing a 23% year-over-year improvement. On a per-share basis, the company posted non-GAAP earnings of$0.03 per basic and diluted share.

In other words, BlackBerry is improving and seeing *some* growth, and investors can expect more in the future — it's just not the type of growth that investors want right now.

Yet another fire sale won't save this one-time titan

Bombardier (TSX:BBD.B) is a stock that has been plagued by delays, quality issues, cost overruns, and a growing amount of debt in recent years. The manufacturer of trains and planes has propped itself up during that time by offloading some of its product portfolio as well as its real estate holdings.

Just in the past two years, Bombardier has sold off majority control of the CSeries program, offloaded its CRJ and turboprop businesses for a combined US$800 million, and sold off its Toronto Downsview facility for $635 million.

The culmination of that sell-off frenzy came last week when Bombardier finally sold-off its last 33.6% stake in the CSeries program for another $591 million. The deal now leaves Quebec holding a 25% interest in the program with European behemoth Airbus holding the controlling interest.

More importantly, this signals a swift exit from the commercial airline market for Bombardier. The company had invested over US$6 billion to develop what became the CSeries.

This sale gives Bombardier a financial injection that should help the company in the short term, but problems at Bombardier run far deeper. Quarterly results announced last week showed that Bombardier posted an adjusted loss of US$172 million, or US$0.10 per share. For the full fiscal year, that loss widens to US$396 million, or US$0.25 per share.

Like BlackBerry, it's not all bad news. Bombardier's business jet segment is full of promise, with orders for the new line of Global jets sold out for the next few years. Bombardier is forecasting revenue from the segment will see double-digit growth this year.

In other words, Bombardier could be a growth driver — just not anytime soon.

Final thoughts

Both BlackBerry and Bombardier have made huge strides in their turnaround efforts, and will eventually return to sustained profitability and growth. Unfortunately, that growth isn't likely to materialize in the short term, meaning that investors would be better suited looking elsewhere at the moment.

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