Forget Bombardier (TSX:BBD.B): Buy This Undervalued Canadian Stock Instead!

Description

When it comes to burning investor wealth, few can compete with **Bombardier** (TSX:BBD.B). The stock was trading at $25 at the start of this century and has now lost 97% in market value to currently trade at $0.96.

Last month, Bombardier announced the sale of its transportation division to Alstom that will see Bombardier receive between $4.2 billion and $4.5 billion. Bombardier also exited from the Airbus partnership and will receive $591 million as part of this exit.

Bombardier stock fell by 32% on a single day in January 2020, when the company announced subpar quarterly results. Further, the company is also grappling with high debt levels.

While the aforementioned exit and sale of its business division will help reduce debt, the company's weak fundamentals will fail to inspire investor confidence.

Another major worry for investors will be Bombardier's mounting losses. In the December quarter, it reported an adjusted EBITDA loss of $66 million and a negative operating cash flow of $680 million.

With a market cap of $2.46 billion and a debt balance of $9.8 billion, you know why it makes sense for investors to exit their position in the stock. Even if the Quebec government steps in to bail out Bombardier once again, the capital-intensive nature of the business and the latter's exposure to the highly volatile airline space will deter most shareholders.

Why would you want to invest in a stock that comes with massive risk and little reward? Canadians can instead look to add undervalued stocks such as **NFI Group** (TSX:NFI) to their portfolio.

NFI Group is a Canada-based bus and motor coach manufacturer. NFI stands to benefit from its leadership position in markets such as Canada, United States, New Zealand, UK, and Hong Kong. Over 20% of company sales are now derived from markets outside North America.

The transition to electric vehicles has been a top goal for most countries and NFI has identified growth opportunities in China, Europe, India, and the United States in a bid to gain traction and increase revenue.

Founded in 1930, NFI has over 36,000 vehicles in service. It's the highest-selling public and private motor coach company in North America. The company now aims to expand and transform its parts business.

With annual revenue at $400 million, this business has strong profit margins, and NFI can look to leverage its global supply chain to increase efficiencies.

NFI Group is trading at a cheap valuation

NFI has a market cap of $1.88 billion and an enterprise value of $3.22 billion. Its price-to-sales ratio is 0.71, while the enterprise value to revenue ratio is 1.22. NFI stock has a forward price-to-earnings multiple of 15, an absolute bargain given its five-year estimated earnings growth of 31.4%.

In the last five years, NFI has increased revenue at an annual rate of 13.3%, while EBITDA has risen by 22.3% in this period. NFI has increased its dividends from $0.70 per share in the first quarter of 2016 to the current payout of $1.70.

This indicates the stock is trading at a forward yield of 5.6%, making NFI one of the most undervalued picks for Canadians.

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Date
2025/07/01
Date Created
2020/03/07
Author

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