Why Did BRP (TSX:DOO) Stock Plunge 70% During the Market Crash?

Description

The market crash has created several buying opportunities — and one in particular could deliver quick gains of 80% or more.

BRP Inc (TSX:DOO)(NASDAQ:DOOO) is best known for making recreational vehicles and boats. Its portfolio is extensive, and includes Ski-Doo and Lynx snowmobiles, Sea-Doo watercraft, Can-Am vehicles, Alumacraft, Manitou, Quintrex, Stacer and Savage boats, Evinrude and Rotax marine propulsion systems, as well as Rotax engines for karts, motorcycles, and recreational aircraft.

BRP has grown rapidly in recent years. Its stock rose from $15 in 2016 to $75 this February. As of last quarter, the company had $5.2 billion in annual sales, generated with the help of 4,500 dealers across 120 countries.

On every metric, BRP was succeeding. That is, until, the coronavirus market crash began. In four week, shares collapsed from $75 to under $25.

This isn't the first time shares have withstood a correction, however. In late 2017, the stock fell from $70 to $30. Over the next 12 months, however, shares *doubled* in price.

Are BRP shares a buy once again following the market crash, or is there something more sinister lurking under the surface?

Here's what you're buying

BRP is an incredible company thanks to its portfolio of branded products. Customers have been flocking to its brands in particular over the industry overall.

BRP's portfolio, including snowmobiles and ATVs, can be broadly classified as"powersports products. Total revenues have increased every year since 2016. Notably, the industry *hasn't* grown at the same pace.

In 2017, North American powersports sales fell by the single digits. BRP sales, meanwhile, grew by 5%. In 2018, a similar phenomenon occurred. Industry sales were up by mid-single digits, yet BRP sales jumped by 11%. In both 2019 and 2020, BRP sales continued to outpace the market.

This dynamic has a strength and a weakness. The positive takeaway is that the company can take market share with products that consumers prefer over the competition. The negative component is that there's only so much market share that the company can cannibalize.

Eventually, organic sales growth will slow due to diminishing marginal returns from market share gains. But there's another massive headwind that could crush sales: a recession.

Bear markets are almost always accompanied by recessions. The coronavirus market crash will be no different. Unemployment is expected to surge past 20%.

Some estimates believe it will ultimately top 30%. Spending on consumer staples like petrol and groceries will likely be stable. Consumer discretionary products, like jetskis and ATVs, will be on the chopping block.

This is the biggest reason why the market crash sent BRP stock lower by 70%. During a recession, a vast number of consumers will stop buying its products.

Is this market crash different?

Today, BRP stock trades at the same price that it did in 2013. Since that year, the company has increased revenue by more than 50%, strengthened its product portfolio, and expanded into new territories like Europe, Asia, and Latin America. Should shares really be back to 2013 levels?

An investment in BRP right now hinges on a single bet: Will this recession be different?

If the coronavirus crisis peaks in May, and the economy is back on track by the end of the summer, BRP stock is clearly a buy. A drop in consumer discretionary spending is the only factor holding the company back.

If that normalizes, and the economic dislocation is temporary, it should be back to business as usual for the company, suggesting upside of *at least* 80%.

But what if this recession acts like the others, with dampened consumer discretionary spending that persists for months, even years? Management has already noted that the coronavirus impact is highly uncertain.

"The coronavirus situation is evolving quickly, and its potential impact on our business and the global economy remains unknown and difficult to predict," the company said.

The future is so uncertain that the company has withdrawn its financial guidance for the upcoming year. But uncertainty brings opportunity.

If you’re bullish on the economy, this should be at the top of your buy list. If you’re worried about a continued market crash, stay away from this stock.

CATEGORY

1. Coronavirus
2. Investing

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2. TSX:DOO (BRP Inc.)

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rvanzo