2 Dirt-Cheap Stocks Under $1: Are They Worth the Risk?

Description

Stocks that are trading below $1 can be high-risk, high-reward investments. Even a small change in price can have a significant impact on your portfolio's returns. They typically aren't stocks for the faint of heart. But with very low price points, the two stocks listed below can generate significant returns for investors if they can turn things around.

Bombardier (TSX:BBD.B) has a lot of baggage, and that's not because it's in the airline business. The company hasn't always had the best reputation for quality. And while it's simplified its business by focusing on aviation, that's a move that could end up backfiring during the COVID-19 pandemic, when travel is limited. It's no surprise that shares of Bombardier have plummeted more than 70% already in 2020.

The company's been laying off employees in Canada and in Northern Ireland as it tries to keep its costs down. But that may not be enough to save the business.

In its most recent quarterly results, Bombardier reported that it had cash and cash equivalents on March 31 totaling US$2 billion. However, that may insufficient for the company given its high rate of cash burn. In the past three months, the company's burned through US$1.5 billion just through its operating activities. A US$2 billion cash balance may not last long, especially with the demand for air travel being almost non-existent. The company could dip into credit or issue shares, but that won't be enough to turn things around.

Although the stock is trading near its 52-week low, Bombardier is full of risk, and while it could easily rise in value, it could just as easily continue falling towards $0. It's hard to see a scenario where Bombardier can generate positive, sustainable returns from where it is today. Investors should avoid it at all costs.

Baytex Energy (TSX:BTE)(NYSE:BTE) has fallen more than 60% in 2020, as it hasn't done a whole lot better than Bombardier. However, the oil and gas producer is still in better shape than Bombardier, as at least there's demand for oil and gas. Baytex noted in its first-quarter earnings release that it had an undrawn credit capacity of $417 million. And with the company still generating positive cash flow from its operations of $182.6 million during the quarter, cash doesn't appear to be a problem for the company, at least not yet.

Shares of Baytex have been soaring more than 70% in the past month, but that doesn't mean the stock is going to stay on that trajectory. While oil prices have been rising of late, that's not enough of a reason to invest in the stock. And while the company is performing okay for now, that may change in the second quarter, when COVID-19 will likely have more of an impact on its financials.

Bottom line

Both Baytex and Bombardier have been hit hard and will continue to feel the effects of a world where travel and demand for oil is very limited. With much better investments out there to choose from, there's just too much risk for investors to risk their money by investing in either one of these two stocks.

The longer the COVID-19 pandemic lasts, the less likely that Baytex and Bombardier will be able to make it through in one piece. And that's a gamble that isn't worth taking. These stocks are only suitable for investors willing to take on significant risk.

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1. Coronavirus
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1. TSX:BBD.B (Bombardier)
2. TSX:BTE (Baytex Energy Corp.)

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