



Why Did BRP (TSX:DOO) Stock Spike 156%?

Description

BRP ([TSX:DOO](#))([NASDAQ:DOOO](#)) is a volatile stock.

From 2016 to 2018, shares tripled. Then shares fell by 50%, only to double in value again the next year. At the start of the coronavirus pandemic, the stock fell by a record 70%. The ensuing [rally](#), however, forced shares higher by 156%.

If you want to make a quick profit, this is clearly the stock for you. Despite the recent spike, shares would still need to rise another 40% before reaching its former highs. There's a good chance that more upside is to come.

The risks are clear, however. What goes up often comes [down](#). If you want to bet on BRP stock, be sure to understand the details.

Pay close attention

BRP is best known for its powersports vehicles and watercraft. You're likely familiar with many of its brands, including Sea-Doo, Ski-Doo, Lynx, Alumacraft, Can-Am, Rotax, and Manitou.

These are fun products, squarely in the recreational category. When the economy is humming, sales growth is strong. Last fiscal year, before the coronavirus pandemic began, sales were growing at 15% annually. EPS spiked by nearly 75% year over year.

BRP experienced strong results across every product line in 2019. Shares rose from \$36 to \$60.

Then the crisis began. In March, company-wide sales saw a slight decline, but by April, the slide built steam. Many believed the coming economic collapse would eviscerate demand for these high ticket, discretionary toys. Investors ran for the door. In April, shares fell below the \$30 mark, erasing nearly five years of gains.

But then something amazing happened: sales *increased* in April.

“Containment measures forced many dealers to close in the second half of March and early April, and also led us to shut down production in all our facilities,” the company explained. “As containment measures evolved and dealers in certain regions were able to reopen, retail came back strongly in the second half of April.”

Shares zoomed higher on the surprise results, rising by more than 150% in a matter of weeks.

Should you bet on BRP stock?

This stock has been a roller coaster. In March, investors were worried that the company would implode due to a collapse in consumer spending. Today, shares trade at January 2020 prices. The market is pricing the company like the coronavirus will have no impact!

Let's look at the metrics. This year, analysts expect the company to generate \$4.9 billion in revenue, resulting in EPS of \$1.69. Next fiscal year, revenues are estimated to rise to \$5.6 billion, with EPS of \$3.13.

These estimates are simply incredible. With millions unemployed, and many months (if not years) of coronavirus pressures to go, Wall Street thinks BRP is in its best position in years to grow sales and earnings.

The stock's valuation makes sense in light of these estimates. Shares trade at 32 times forward earnings. That's nearly *double* the trailing five-year average!

Will BRP actually grow sales in the year to come? It's certainly possible, but right now, the stock is priced for perfection. Anything other than ideal conditions will force the valuation multiple down, putting a dent in the stock price.

While BRP is a fantastic company, the risk/reward at this valuation doesn't look attractive.

CATEGORY

1. Coronavirus
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Author

rvanzo

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