Get Paid 7.3% While Waiting For Bombardier Inc. to Recover

Description

Bombardier Inc. (TSX: BBD.B) shareholders won't remember 2014 as a particularly good year.

The year was plagued with production issues from its much-anticipated line of CSeries business jets, which have been in development since 2004. First, in January, the company announced that deliveries of the new series of planes would be delayed until the second half of 2015, a delay of approximately six months.

And then, in May, disaster struck again. While on a flight, one of the four CSeries test planes experienced engine failure. Management did the prudent thing and suspended test flights for four months until the problem was fixed, but the potential for further delays was obvious. Although the company is on record saying that it still plans to maintain its revised delivery schedule, investors are skeptical.

Because of these setbacks, Bombardier's shares currently sit some 15% below where they started the year. Does this make the company a buy, or is there more bad news to come?

The bull case

Bombardier bears like to point out things like the company's history of issues or its somewhat dodgy balance sheet when pointing out the company's flaws. Combine that with the chance CSeries deliveries are delayed again, and you have yourself a bearish case.

Those are legitimate issues. But folks who are bearish on the company are forgetting something really important.

The CSeries is a good plane.

If you don't believe me, believe the 17 different airlines who have committed to ordering 243 CSeries model CS100 and CS300 aircraft. These buyers also have the option to purchase 162 more if they're satisfied.

Based on an average selling price of $67 million per jet and 50% of options exercised, Bombardier is looking at a cool $21.7 billion worth of work to keep it busy over the upcoming years, and that's without a single additional order. If the plane is popular, orders will continue to roll in for at least a decade, and possibly longer. Successful deliveries will attract more customers. That's on top of its existing aerospace revenues and rail division, which currently do about $20 billion annually in revenue and have a backlog in excess of $50 billion.

How to play the opportunity

Even Bombardier bulls have to admit the company doesn't have a great balance sheet.

Although it's currently sitting on some $2.5 billion in cash, Bombardier is also burdened with more than $8 billion worth of long-term debt and preferred shares. This has led to a credit rating from Standard & Poors of BB-, which technically puts it in junk territory. The company also has $750 million worth of debt expiring in 2015, although the risk of not being to roll it over is limited.

Because of the debt, the company is offering some pretty appealing interest rates from its preferred shares. The series C preferred shares (which have a ticker symbol of BBD.PR.C) currently offer a yield of 7.3%, while trading at about 15% under par. If you're a long-term believer in the company, getting paid more than 7% annually is a good alternative to the common shares, which would likely get smoked if the company announced another CSeries delivery delay.

Or, if you're nervous about higher interest rates, you can buy the series B preferred shares (ticker symbol BBD.PR.B). Based on the original $25 issue price, this issue pays 3% annually, and floats with the Canadian prime lending rate. But since shares have sunk to just over $11, investors currently buying get a yield of 6.7% with interest rate protection built right in.

Or, investors could always buy the common shares. If everything goes as the company plans, it could be one of the best performing stocks in Canada in 2015. But if something goes wrong, the preferred shares offer principal protection and attractive dividends. It all depends on your preference.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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