



## An 8% Yield From Bombardier Inc.? Yes, it Is Possible

### Description

The last year has not been great for shareholders of **Bombardier Inc.** ([TSX:BBD.B](#)).

The company has been plagued with delays and cost overruns from its much anticipated CSeries line of business jets. First, in January 2014, Bombardier announced it would be late in bringing the first jets to market, moving the delivery date from late 2014 to sometime in the second half of 2015. Then in May, a CSeries test flight experienced engine problems, which resulted in shutting down flights until the problem was isolated and fixed. Finally, just a couple of months ago, the company admitted it would likely need more cash in order to bring the CSeries to market, even though more than \$5 billion has already been invested in the project.

As you can imagine, the stock has not performed well. Common shares traded at \$4.60 before all these problems began and fell all the way to \$2.49 each, where they trade today. Additionally, the company completely eliminated the dividend when it raised capital in January.

Although things don't look too good, there are two factors that could help lead the company back to profitability.

### The good things

Amid all this bad news, everyone jumping to conclusions is missing one important fact: the CSeries is a good plane.

It's so good that the company already has 243 firm orders in its backlog, a number that has actually gone up since it first announced delivery delays in 2014. Existing customers also have the option to buy 162 more planes, putting total potential orders at more than 400. At an average price of \$66.5 million per plane, the company has a potential of \$27 billion worth of plane orders in its pipeline. This number should increase once the planes are delivered and customers can see the planes in action.

Additionally, I think the talk of bankruptcy is overdone. With the CSeries being so close to completion, lenders forcing the company into bankruptcy is akin to foreclosing on a new housing development when all that is left to do is the siding. Plus, the Quebec government has gone on record saying it

would be bail the company out if it needed a lender of last resort.

For investors who are bullish on the company, the C Series fiasco has created an opportunity to get paid a very generous dividend and participate in the recovery.

### **Prefer the preferred shares**

Part of Bombardier's debt is in the form of preferred shares, which are sort of like exchange-traded bonds. Because of all the company's issues, the series C preferred shares (ticker symbol BBD.PR.C) currently yield 8.3%. In today's world of ultra-low interest rates, that's pretty attractive.

It also comes with some risk. Preferred shares are one step below bonds on the company's hierarchy, meaning the next step could be to cut the dividend to preferred shareholders. If that were to happen, investors would still accrue dividends (since the series is *cumulative*), but would possibly have to wait years to get paid. Additionally, shares would plunge on that news, since they're primarily owned for income.

These preferred shares have a par value of \$25, but are currently trading at \$18.75. That means that investors have the potential to also participate in Bombardier's recovery by buying these shares. Once the company shores up its finances, the preferred shares will likely trade closer to par, giving investors a potential capital gain to go with the generous dividend.

I don't want to understate the risk in these preferred shares. There could be many pieces of bad news coming out of Bombardier over the next few months, including layoffs, a write down of assets, or another delivery delay. The preferred shares are less of a speculative issue than the common shares, but they're still pretty darn risky. Still, there's a nice potential return if this company can turn things around.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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