



## How to Get an 8.3% Yield From Bombardier Inc.

### Description

The struggles of **Bombardier Inc.** ([TSX:BBD.B](#)) have been well documented.

Mostly, they stem from the debacle of the new CSeries line of business jets. The program has been one disappointment after another, suffering from cost overruns, mechanical failures, and several delays in deliveries to customers. Pre-sales, the life of the airplane industry, have been tepid as a result. Would you order something from a company that consistently over-promises and under-delivers?

But there's good news among all the bad stuff. The previous management team has been mostly let go, with the new guys vowing to make serious changes. Capital has been raised, which should be enough to get the company through to 2016, and if you include all the options, there are orders for nearly 300 CSeries planes on the books. It's just a matter of making them.

Management is also looking at other strategic alternatives, including a sale or IPO of the more stable part of the business, the rail division. Rail is highly competitive, but Bombardier is a worldwide leader known to do great work. It delivers steady profits and is almost definitely being weighed down by CSeries doubts. Without that pessimism hanging over it, the rail division could be worth almost as much as the whole company is now.

So, even though there are some pretty major issues with the CSeries, there are still reasons to buy Bombardier shares. But with the company eliminating its dividend on the common shares back in January to conserve cash, just how exactly can investors participate in a potential recovery and get paid while they wait?

### Prefer the preferred shares

Enter the preferred shares.

For those of you unaware, the preferred share is sort of like a hybrid between common shares and bonds. The price will move on company-specific issues, or because of underlying interest rate concerns. Preferred shareholders have to worry about both.

With Bombardier, interest rate issues are out the window. The series 4 preferred shares (ticker symbol BBD.PR.C) currently trade at less than \$19 each, which is nearly 25% off the par value of \$25. Just about all of this weakness can be attributed to the company's problems.

But this presents an opportunity for investors. Thanks to the current weakness, these shares currently yield a beefy 8.3%. In today's world of interest rates being pretty close to zero, that's a pretty compelling opportunity for income investors. In fact, thanks to the dividend tax credit, holding this preferred share in a taxable account is equivalent to a bond yielding 10.8%.

### **Be careful**

It goes without saying, but an 8.3% interest rate is not nearly as safe as a government bond.

Personally, I'm not worried about Bombardier's ability to make the dividend payments. There's plenty of cash on the company's balance sheet, and the wealthy founding family can step in with fresh cash if needed. Additionally, the Quebec provincial government is on record saying it's willing to inject capital if needed.

But there are still risks. What if the CSeries doesn't live up to expectations? What if there are more undiscovered issues with the design? And remember, preferred shares aren't quite as secure as bonds. The company can stop paying preferred dividends at any point; it just has to make those payments up again before paying dividends on common shares.

Investors are being compensated for those risks though. Not only will they get a yield of more than 8%, but there's potential capital appreciation when the company's results improve. That's really all you can ask for with a stock yielding more than 8%.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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