



## Income Investors: Get a 15.3% Yield From Bombardier Inc.

### Description

By now, I'm sure you've heard all about the woes surrounding **Bombardier Inc.** ([TSX:BBD.B](#)). The biggest culprit is the company's debacle of the CSeries line of regional jets, a division that's now more than a decade in the making.

CSeries production has been plagued by delays, cost overruns, slow acceptance from potential customers, and three separate delays on a possible delivery date for customers. It's pretty obvious why both customers and investors are losing patience with the company.

To add to its woes, Bombardier looks like it might be at risk for bankruptcy. The company has been burning cash like crazy thus far in 2015, seeing its cash balance decline from \$5.3 billion after the first quarter to just \$3.6 billion as of the end of the second quarter. And remember, the company raised billions in new debt and equity back in the first quarter.

In response, the market has sent Bombardier a very strong message. Shares of the beleaguered company have tanked, falling below \$1.10 each several times during the market carnage earlier this week. They've since recovered to \$1.20, which still means investors are really just treating the common shares as a bankruptcy option.

Needless to say, right now Bombardier shares are not for the faint of heart. But if you're comfortable with the risk, there is huge yield potential in the company's preferred shares.

### Huge double-digit yields

No, 15.3% isn't a typo. Bombardier's preferred shares are really yielding that much, at least when you look at the series C preferreds (ticker symbol BBD.PR.C). Think of these preferred shares as unsecured debt. If Bombardier declares bankruptcy, at least bondholders would have some recourse. Usually in the bankruptcy process, bondholders end up with equity in the new company, while equity holders get wiped out. Preferred share holders are above common share holders in the event of a bankruptcy, but below bondholders.

If Bombardier does happen to declare bankruptcy, chances are there won't be much left for

investors who own the preferred shares. Which means an investment in the preferred shares is a bet that Bombardier doesn't go bankrupt. Just how likely is that scenario?

### **The chances of Bombardier's bankruptcy**

At this point, I don't think Bombardier is about to go bankrupt. Management has already told investors they plan to spin off approximately 20% of the more stable transportation division, listing it in Germany sometime in the fall. No word on how much that could raise, but I estimate the whole division is worth \$10 billion. A \$2 billion cash infusion sure would help Bombardier get through this rough patch.

There's also the CSeries timeline to consider. Bombardier says it'll start delivering jets to customers starting sometime in the first half of 2016. Investors certainly have reasons to doubt that timeline, since delivery dates have already been pushed back three times. Just remember, at some point the company will start delivering planes. And when that happens, the cash drain will significantly improve. In fact, analysts predict the company could actually be profitable once that happens.

Another thing to consider is Bombardier has a lender of last resort, and that's the Quebec government, which is on record saying it is willing to help out. The only issue with getting the cash from the province is the conditions that will come with it. Will the government insist on strict terms, like when the U.S. and Canadian governments bailed out the auto companies back in 2008? Or will the government be content in simply adding its name to the list of creditors?

Bombardier's preferred shares are definitely risky. The market is telling you so by giving them a 15% yield. But if the company survives, investors are looking at preferred shares that are likely much higher a year or two from now, as well as pocketing a very generous yield.

In a world where income is hard to get, perhaps investors might be interested in taking a small, speculative position in such an attractive yield.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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