



## 2 Ways to Generate Huge Income From Bombardier, Inc.

### Description

I won't sugar coat it. Buying **Bombardier, Inc.** ([TSX:BBD.B](#)) at this point is a risky investment.

The big issue is with the company's balance sheet. At the end of 2014 the company had more than US\$5.3 billion in cash. Just nine months later, the cash balance was down to US\$2.9 billion, and that was even after raising billions in the first quarter from issuing new shares and debt.

When fourth-quarter earnings come out in February, the first thing investors are going to look at is how much Bombardier has in the bank. At least the cash burn shouldn't be so bad this quarter because of a cash infusion from the Quebec government.

Still, at the current pace, Bombardier is in danger of running out of cash sometime in the latter part of 2016. The company is angling for help from Ottawa—assistance which should eventually come. It looks to be only a matter of time.

What would really help is actually delivering some CSeries planes. We're not exactly sure when that will be, but it looks to be sometime this year.

One way to potentially decrease the risk from investing in Bombardier is to generate income from the investment. But with the dividend from the common shares eliminated a year ago, what can investors do?

Here are two ways an investor can get exposure to Bombardier's turnaround and collect handsome dividends while they wait.

### Preferred shares

Preferred shares are a hybrid between equity and debt. They're issued at a par price (usually \$25 per share) and tend to trade on interest rate expectations and bankruptcy risk. They're much less volatile than common shares, but will still move up or down depending on the health of the company.

Bombardier's preferred shares have gotten hammered along with the common shares, which has really

pushed up the yield on the former. The series 3 preferred shares—which trade under the ticker symbol BBD.PR.C—have fallen more than 70% since being issued back in 2002. Even over the last year they're down more than 41%. The issue currently yields 11.2%.

These are rate-reset preferred shares, which means the rate is only locked in until August 2017. After that the rate resets at what could potentially be a lower amount based on the government of Canada bond. Still, at a 72% discount to the par price, it's pretty obvious these will still have a robust yield come rate-reset time.

These preferred shares will also react to good news from the common shares. Anything that comes out that lessens the chance of bankruptcy will move the preferred shares. So you get an 11% yield plus potential upside. There's not as much upside as the common shares, but there's still the possibility for the preferred shares to double, perhaps even more.

### **Covered calls**

There's another way to participate in at least some of Bombardier's upside and get paid to do so. You need to buy the common shares and then sell call options that are out of the money. This is called writing covered calls.

Allow me to explain using a real-life example. As I write this, Bombardier shares trade hands at \$1.23 each. The April 15, 2016 \$2 calls last traded at \$0.06 per contract, which represents 100 shares.

So you'd sell this particular option and generate \$0.06 per share in income. This would be collected immediately, minus any commission on the trade. The buyer of this option has the right to buy Bombardier shares at \$2 each on the 15th of April. If the price of the common shares are more than \$2 on that date, you'd be forced to sell the shares you already own.

But this isn't the end of the world. Making \$0.77 per share on a \$1.23 stock in just three months is a massive annualized return. And generating \$0.06 per share in income works out to a yield of 4.8% *per quarter*. That's a very succulent yield annualized.

Generating income from an investment like Bombardier can help mitigate the risk. For this company especially, that's a good thing.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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