Is Bombardier, Inc. a Buy at 80 Cents Per Share?

Description

Bombardier, Inc. (TSX:BBD.B) is now solidly in penny-stock territory, and contrarian investors are wondering if the sell-off has finally gone too far.

Let's take a look at the current situation to see if this is an opportunity to buy or a big warning signal to stay on the sidelines.

Troubled times

The slide in Bombardier's shares has been well documented over the past year. While storm clouds have been brewing for years, the real pain for shareholders has occurred over the past 12 months.

In early 2015 the ballooning debt and massive cash burn forced management to take drastic measures to right the ship. Bombardier canceled its dividend, brought in a new CEO, diluted shareholders through a large equity issue, and managed to somehow find buyers for new debt.

That bought the company some time, but the stock continued its slide through the year as it became apparent by late summer that more money was needed.

The company couldn't go back to the capital markets, so Bombardier had to turn to Québec and its pension fund for help. The province handed over US$1 billion for a 49.5% stake in the CSeries program and the Caisse de dépôt et placement du Québec (CDPQ) invested US$1.5 billion for a 30% stake in Bombardier's train business.

The new funds should be enough to get the CSeries through the last stretch and delivered to its first customers by the middle of this year. Assuming that happens, revenue should start rolling in and the cash burn could begin to slow down.

No new customers

The announcement of the new funding and the subsequent certification of the CSeries by Transport Canada initially brought a bit of life back into the stock, but things haven't gone so well in 2016, and the stock has plunged to new lows.

What’s going on?

Bombardier desperately needs to find new buyers for the CSeries. The last order came in September 2014, and the company’s competitors recently announced significant deals for competitive planes that have the market concerned Bombardier has simply missed its opportunity to make the CSeries a success.

Despite being in the final innings of the development process, the CSeries isn’t expected to turn a profit until 2020. That’s assuming the company can boost the order book from 243 to 300 and do it at prices that won’t put the program further in the red.

Help from Ottawa

Rumours about a possible bailout from Ottawa have investors wondering if they can count on Prime Minister Trudeau to save them. For the moment the PM is keeping his cards to his chest, only saying that he wants to see a viable business plan. Recent reports suggest he could demand a shakeup in the ownership structure, which won’t go down well with the Bombardier family.

While changing the dual-class share structure might seem like a good idea on the surface, it comes with the risk of making Bombardier vulnerable to a takeover, which could result in massive job losses in Québec if an acquiring firm decides to gut the company.

Ottawa can’t afford to let Bombardier die or allow all the high-paying jobs to disappear, but that doesn’t mean shareholders are going to be saved.

Reverse split

With the stock trading below $1 per share, the company is facing the risk of being kicked out of the S&P/TSX index, which could trigger a sell-off of the stock by index funds.

As a result, a reverse split is likely in the cards. This won’t change the value of the company, but reverse splits often turn out bad for investors because the shares can continue to slide after the consolidation.

Should you buy?

I wouldn’t buy the stock until there is a clear indication that the CSeries is going to survive. If you want to take a shot, it would be prudent to at least wait until after the reverse split has occurred.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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