



2 Ways to Collect Massive Income From Bombardier, Inc.

Description

It seems like investors who are bullish on **Bombardier, Inc.** ([TSX:BBD.B](#)) these days are few and far between.

The naysayers have all sorts of things to be negative about.

The CSeries program has been a disaster. At one point the new planes were quite technologically advanced, but huge delays have allowed the other plane makers to catch up. Any advantage Bombardier once had looks to have been copied by competitors.

Then there's the company's cash issues. Because the CSeries has cost so much, Bombardier was forced to borrow extensively. The balance sheet became stretched as a result, which led to investors speculating the company would eventually run out of cash and have to declare bankruptcy. Two investments from the Quebec government have helped alleviate these fears, but the company still isn't out of the woods yet.

The stock has devolved from being one of Canada's premier blue chips down to almost penny-stock status, even spending time below \$1 per share. Moves of 5-10% per day are common as investors react strongly to pieces of news that seem important at the time.

This type of rampant speculation can scare off even the most seasoned investors. Who wants to put good capital to work in a company so volatile, even if there is potential for a recovery?

Getting a dividend has traditionally been an effective way for investors to ignore the volatility of a stock. But Bombardier hasn't paid a dividend for more than a year after the company eliminated its payout on the common shares in early 2015 to help it conserve cash.

Fortunately for investors, there are a couple of different ways to collect income from the company. These strategies come with some nice income potential too, yielding anywhere from 14% to 16%.

Preferred shares

As Bombardier's balance sheet has worsened, the yield on its debt has skyrocketed.

Let's look specifically at the preferred shares. The Series 4 preferred shares (which trade under the ticker symbol BBD.PR.C) were originally issued in 2002 at \$25 per share. These days they trade at \$11. They've paid a \$0.39 quarterly dividend since inception, and the company has never missed a dividend payment.

These are fixed-rate preferred shares, which means the dividend will remain constant for as long as they're outstanding. And they're cumulative, which indicates if Bombardier ever has to stop paying the payout, it must make up those missed payments in the future—provided the company doesn't file for bankruptcy protection.

The yield is a pretty good indication of how risky the market perceives these shares to be. In an era where government debt or GICs barely pay 2% annually, these preferred shares have a yield of 14.2%.

For folks who hold these preferred shares in a taxable account, the implied yield is even higher when compared to other fixed-income options. That's because these preferred shares are eligible for the dividend tax credit, while the interest received from bonds or GICs is taxed at the full marginal rate.

Covered calls

The other way for investors to collect a nice yield from Bombardier is to use a covered-call strategy.

An investor would buy the underlying Bombardier shares for, say, \$1.25 each. They would then sell the April 15th, 2016 \$2 call options, pocketing the \$0.05 per share option premium. The same trade could be made three more times per year, provided the stock didn't go up in the meantime.

This works out to a yield of 16% per year, and investors will still enjoy significant upside if the market really gets bullish on Bombardier shares.

The big risk is if Bombardier shares surge and surpass \$2 in the next few weeks. That is a possibility, especially for a stock as volatile as Bombardier.

But it wouldn't be the end of the world. An investor would still make a \$0.80 per share of hypothetical profit on this trade, good enough for a 64% return in just a couple of months. If only all of our unsuccessful investments worked out so well.

Bombardier is a risky stock; that much is obvious. There's a reason both of these strategies give double-digit yields. They're not for the faint of heart. But opportunities to get yields of 15% annually are few and far between.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/12

Date Created

2016/03/07

Author

nelsonpsmith

default watermark

default watermark