



Income Investors: How to Get Huge Yields From Bombardier, Inc.

Description

There's no denying it. **Bombardier, Inc.** ([TSX:BBD.B](#)) is a risky stock.

Shares of the maker of planes and trains have been absolutely hammered over the last five years, falling nearly 80%. Much of the reason for this decline has been the debacle known as the CSeries. This new line of regional jets could be a game changer, but the company has been so plagued with delays, mechanical issues, and the like that planes still haven't been delivered to customers more than five years after original orders.

Lately, however, things are starting to look up. The Quebec government has committed to giving the company a cash infusion; many observers think a similar bailout from Ottawa is inevitable. Both **Air Canada** and **Delta Air Lines** have given the company big CSeries orders. And it appears the days of the company aggressively burning cash are behind it.

It also appears that CSeries planes will actually start being delivered to customers within the next few months. The hope is that airline execs will be so impressed with the plane once they see it being used that it'll help stimulate some orders.

And finally, it's obvious investors are beginning to think Bombardier can avoid bankruptcy as well. Since bottoming at just \$0.78 each back in February, shares have nearly doubled. The stock currently sits at \$1.49, close to a six-month high.

One of the issues with buying a company like Bombardier for your portfolio is it's basically a wild card. If things work out, you get a nice capital gain. If they don't, the stock could go to zero.

One way to mitigate this is to insist on a dividend while waiting for the stock to recover. Bombardier hasn't paid a dividend on its common shares since 2014, but that doesn't mean investors can't get paid to wait. Here are two ways an investor can collect double-digit yields while still getting good upside potential.

Preferred shares

Bombardier has several different preferred shares outstanding—securities that are essentially a mix between bonds and common shares. Let's look a little closer at the Series 4 issue, which trades under the ticker symbol BBD.PR.C.

Shares trade hands at \$12.58 each and pay a dividend of \$0.39 each quarter, which works out to a yield of 12.4%. This security is a perpetual preferred, which is just a fancy way to say it doesn't have a defined maturity date. Even though the company has the right to redeem shares at par (which is \$25 per share), don't count on it happening anytime soon.

Many preferred shares are subject to a rate reset every five years, which is supposed to help protect investors from rising interest rates. But as rates have gone down, the exact opposite has happened, which has led to a sell-off in many preferred shares. These Bombardier preferred shares will have the same dividend for as long as they're outstanding, so investors don't have to worry about that.

The only real concern is the general credit worthiness of Bombardier itself, which is exactly why these shares yield 12.4%.

Covered calls

The other way for investors to generate a nice income stream from Bombardier is to use covered calls to produce income.

Here's how the strategy works.

An investor who holds Bombardier shares would sell call options against those shares at a higher strike price. They would keep the option premium in exchange for locking in their potential profits.

Let's look at a real life example. The May 20th, \$2 Bombardier call options are currently trading hands for \$0.05. An investor would sell these options (while owning the underlying stock), which gives them a \$0.05 per share profit immediately in exchange for limiting their upside at \$0.51 per share.

Over the course of a year, this translates into huge income potential. Selling covered calls on Bombardier four times per year gives us an income of \$0.20 per share, good enough for a yield of 13.4%.

Whenever you're generating a double-digit yield from a strategy, there's obviously some risk associated with it. But if you're a believer in Bombardier eventually recovering, either of these strategies can give you some nice income while you wait for capital gains to happen.

CATEGORY

1. Dividend Stocks
2. Investing

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1. TSX:BBD.B (Bombardier)

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