



Income Investors: Get a 10.3% Yield From Bombardier, Inc.

Description

In 2016 it's tough to get the kinds of yields that were commonplace just a decade ago.

Investors flocked to income trusts in the mid-2000s, content to collect dividends that often hit double-digit yields. Sure, some of these trusts blew up and cut distributions, but most paid faithfully.

These days, it's still possible to get these kinds of yields, but they're few and far between. It seems like only the riskiest stocks offer these kinds of payouts—dividends that look like they could be cut at any time.

These are not the kinds of stocks you want to depend on for income.

Hidden among these stocks are a select few companies that do have the ability to pay their huge yields. I won't pretend these yields are safe, because they could change at any point in time. There's a reason these dividends are +10%, in other words.

These types of stocks are hardly set-and-forget investments. But investors who keep a close eye on them can do quite well, especially if they buy at the bottom. Not only do they get paid nicely to hold, but they also get terrific capital-gains potential.

I believe such a situation exists today in **Bombardier, Inc.** ([TSX:BBD.B](#)) and its preferred shares. Let's take a closer look.

Why Bombardier?

There are plenty of reasons to be bearish on Bombardier.

The company's CSeries program has struggled, to put it mildly. Bombardier has been working on the new planes for close to a decade now with deliveries scheduled to start some time in the second half of the year.

These delays obviously affected the company's order book. From December 2014 to earlier this year,

the company didn't book one new sale, even though the overall airline sector was doing pretty well. But 2016 has been much better; the company signed major order deals with **Delta Air Lines** and **Air Canada**.

Bombardier's balance sheet has also been a concern. As of March 31, the company owed creditors more than US\$9 billion, a number that doesn't even include its preferred shares. That's offset by nearly US\$4 billion in cash, at least. Still, investors are rightfully worried about the balance sheet.

The good news is the company has recently gotten a cash infusion from the Quebec government and all indications are that the cash burn will slow significantly once jets start getting delivered to customers. Additionally, management has publicly admitted a bailout from the federal government at this point would be more of a bonus.

In short, even though there are plenty of reasons to be bearish on Bombardier, the company looks to be on solid financial footing with plenty of upside potential. Most people think the company will survive these dark days.

Enter the preferred shares

If Bombardier survives this downturn, then investors who buy the stock today will likely do pretty well. The only problem? The common shares don't pay a dividend.

This leaves investors with only one choice—the preferred shares. These debt/equity hybrid securities act mostly as debt, moving on interest rates and company-specific news. But they pay dividends rather than interest, which is enticing for regular investors come tax time.

Bombardier's Series 4 preferred shares (ticker symbol BBD.PR.C) are a perpetual preferred, meaning they pay \$0.3906 per share on a quarterly basis for as long as the shares are outstanding. They currently trade at \$15.12 each, good enough for a 10.3% yield.

The company can redeem these shares at \$25 per share at any point, which would mean a nice capital gain for shareholders. There's zero chance of that happening right away, but it could happen five or 10 years down the road if the company continues to right the ship.

Since these securities are more like debt than equity, the market would freak out if Bombardier ever suspended dividends. The only way this would happen is if bankruptcy is just around the corner. Thus, we can conclude the dividend will be a priority to management.

There's little doubt that Bombardier's preferred shares are risky. Investors should tread lightly around these. But at the same time, a small position in them can really help supercharge the yield on an income portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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