



Get a 9.5% Yield From Bombardier, Inc.

Description

The story of **Bombardier, Inc.** ([TSX:BBD.B](#)) and its debacle of the CSeries program hardly needs an introduction.

It took nearly a decade for it to go from conception to actually getting planes delivered to customers. The interim was plagued with problems from cost overruns to delays to even an engine failure during a test flight. If it could go wrong, chances are it did.

But things have been improving lately. The company's cash burn has slowed significantly, and an injection of US\$2.5 billion from various parts of the Quebec government has quieted talk of bankruptcy. Cash flow will also improve as the company continues to deliver jets to customers.

After getting no orders in 2015, Bombardier has gotten some big commitments for CSeries jets from **Air Canada, Delta Air Lines**, and airBaltic thus far in 2016. This has been offset by a partial cancellation of Ilyushin Finance Co, which lowered its order from 32 CS300 jets to 20. Still, it's been a nice bounce-back year.

And with customers finally being able to see and fly on CSeries planes, management is hoping they'll impress enough people to further spur orders.

These better results have shown up in Bombardier's share price. Even though shares have sold off approximately 20% thus far in September, they're still up some 21% for the year and have nearly doubled off February lows.

One issue for some investors looking to invest in Bombardier's turnaround is the company's lack of a dividend. It's important to get paid to wait while a company does the long and painful turnaround process. Dividends can make a successful transformation all the more sweet and can help cushion the blow if the company can't right the ship.

It isn't all bad for investors looking for Bombardier dividends. Here's how investors can have their cake and eat it too.

Enter the preferred shares

Preferred shares are a hybrid of bonds and equities. Think of them as about 70% bond and 30% stock.

Most of the time they act as debt securities. As long as the underlying company is healthy, interest rates are what matters. Thus, most of the preferred-share market tends to move up and down depending on the outlook for rates.

Bombardier's preferred shares are a little different. Because the company is having such financial difficulties, these shares move based on the health of the company. Let's take a look at a chart to see the correlation between Bombardier's common shares and its Series 4 preferred shares, which trade under the ticker symbol BBD.PR.C.

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Keep in mind that a 30% move in the price of a preferred share is a much bigger deal than a 21% move in the common shares, especially for a stock like Bombardier. It indicates the company's credit risk has gone from extreme to just elevated.

The good news for investors is there is still some terrific yield available for those brave enough to buy the Bombardier preferred shares. The Series 4 preferred shares pay a constant dividend of 39.0625 cents per share each quarter—good enough for a 9.5% yield.

These preferred shares can be redeemed at any point for \$25 per share by the company, although with shares currently trading hands at \$16.48 each, don't expect that to happen anytime soon. Besides, Bombardier has better uses for its cash.

The bigger risk is the threat of conversion. Bombardier can convert these preferred shares to common shares. The formula to do so is somewhat complex, but it goes something like this: the conversion price is the redemption price (\$25 per preferred share) divided by the greater of \$2 per common share or 95% of the weighted average trading price of the class B shares.

It's doubtful the company would convert the preferred shares into common shares unless it can't pay dividends on the preferred shares. With total dividends of just US\$4 million per quarter for all of its

preferred shares, Bombardier can easily afford the obligation.

Conclusion

A preferred share yielding 9.5% certainly has more risk than one paying 5%. That much is obvious. But for investors looking to get a little frisky, Bombardier's preferred shares could offer decent dividends along with upside potential.

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