Income Investors: Get an 8.9% Yield From Bombardier, Inc.

Description

It isn't easy being an income investor in 2017.

Yields everywhere are anemic at best. Government bonds pay 1%. GICs barely pay 2%. A high-yield stock might pay 5%, but anything above could be at risk of a dividend cut. Or at least goes the common wisdom.

So, what's a retiree to do?

Fortunately, there's a solution. Here's a company offering a big yield along with a decent amount of protection.

Enter Bombardier

There are many investors who refuse to touch **Bombardier, Inc.** (TSX:BBD.B) shares. I can totally understand why.

Just a year ago, rumours of the company's bankruptcy were swirling. Delays and cost overruns of its controversial CSeries program were out of control. Debt was continuing to pile up. And, perhaps most importantly, there was nary a CSeries order in sight. Airlines were choosing competing planes.

What a difference a year makes. Bombardier has gotten a number of big CSeries orders and actually started delivering planes to customers. The cash burn has stopped. In fact, the company projects it'll produce approximately US$600 million in earnings before interest and taxes for 2017.

This is a remarkable turnaround from a year ago. No wonder common shares are up some 150%.

There's just one problem: the common shares offer no dividend. But the preferred shares do.

The preferred shares

Preferred shares are a little different than common shares. Preferred shareholders get special treatment, including the right to receive dividends before any common shareholder.

Think of preferred shares as a little bit equity and a little bit debt. Companies will often issue them instead of debt, but they do pay dividends. This is a huge, often understated advantage.

Bombardier has several different preferred shares. We'll focus on the Series 4 preferred shares, which trade under the ticker symbol BBD.PR.C.

These shares have been around for a long time. They first started trading in early 2002. They've bounced around in price over the years, but the parent company has never missed a payment, even when everyone was convinced it was about to go to zero.

These Bombardier preferred shares yield 8.7%. It's the equivalent of a 10% or 11% bond since dividends are taxed at a much better rate than interest.

The sustainability of the payout

A great deal will have to go wrong for Bombardier to stop paying preferred share dividends.

It's a huge event if a company suspends their preferred share payments. Remember, preferred shares are a form of credit. A company that starts stiffing preferred shareholders has one foot in the grave. It's usually a last-resort move.

Besides, Bombardier's preferred shares aren't a very big deal in the scheme of things. Between the four issues, the company is responsible for just over US$4 million worth of dividends each quarter, or about US$17 million per year. The company has a market cap of nearly $6 billion.

Scrounging together the cash to pay preferred shareholders is the equivalent of fishing around your pocket for change. The payout is safe.

The bottom line

Bombardier's common shares are still risky. Although management has done a nice job turning things around thus far, there's always the risk of something going wrong.

The preferred shares are far less so. They're a bet on the company continuing as a going concern. That's it. As long as Bombardier can stay out of bankruptcy, investors can get paid nearly 9% while still having some capital gain potential.

In a world where yields are so anemic, income investors owe it to themselves to check out this opportunity.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/07
Date Created
2017/01/24
Author
nelsonpsmith