Has Bombardier, Inc. (TSX:BBD.B) Stock Peaked?

Description

Bombardier (TSX:BBD.B) stock has been doing well in the past 12 months, with its share price doubling over that time. The stock is now trading around highs not seen since 2011 and should have investors asking an important question:

Has the stock gotten too expensive?

Although it may not be a typical question you ask about a stock that is trading near $5, there are still many issues plaguing Bombardier, and my belief is that the stock is being propped up by speculators.

The company recently released its second-quarter earnings, and it showed sales growth of 3% and was able to finish in the black with net income of $70 million compared with a loss of $243 million a year ago. However, it still wasn't able to generate positive cash flow from its operations.

While investors may point to the positive net income figure as proof that the company is improving, at a profit margin of just 1.64%, there's not a lot of room for error for a company that's seen its share of problems.

Sales growth has been hard to come by for Bombardier, as in 2017 revenue was down for the third consecutive year and had declined by nearly 20% since 2014. The company has also finished in the red during each of those years.

It's hard to see where the bullishness is coming from, as the company's results shouldn't be encouraging a lot of buying among investors. It leads me to believe that the big decline the stock was on resulted in investors willing to taking a chance on a stock that, in early 2016, was trading at less than a dollar. That momentum has slowly carried the stock to where it is today.

While that sell-off may have been excessive, it seems to be that this rally may have reached a peak as well. If we look back over the past five years, Bombardier has not shown a significant improvement on its financials, and an argument could be made that its business is actually weaker after giving away half of its CSeries aircraft for nothing.

In that case, it’s plausible that we could see another big correction in price. With a negative book value and debt levels rising over the years, Bombardier is making it difficult to justify buying the stock today.

Key takeaways

Bombardier may be doing less awful than it did a year ago, but its problems haven’t disappeared, and that makes it a risky investment for anyone to take on.

While the temptation may be to think that since the stock has risen 230% in the past three years, it’s going to keep going up and will continue riding the momentum, it wasn’t that long ago that the stock looked to be falling with no end in sight. The danger is that once the stock drops in price, it could trigger a lot of sell signals, and the bullish activity could turn bearish very quickly.

Bombardier was up on its Q2 results, but investors should be aware of the risk before deciding to invest, as this is not a stock that you can just buy and forget about.

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