



Bombardier, Inc. (TSX:BBD.B): Should You Buy This Falling Stock?

Description

Canadian plane and train maker **Bombardier** ([TSX:BBD.B](#)) staged an impressive recovery in the past two years, but the rally appears to have run out of fuel and investors are wondering whether the pullback is an opportunity to buy or a signal to avoid the stock.

Let's take a look at the current situation to see if Bombardier deserves to be on your [buy list](#).

Big returns

A brave investor who bought \$15,000 worth of Bombardier shares at the 2016 low of \$0.80 would have had more than \$100,000 in July this year. Even today, at the current price of \$3.60, that bet would still be worth more than \$65,000.

It's always easy to look in the rearview mirror and kick yourself for missing an opportunity, but it would have taken some serious gumption to jump in at that low. When Bombardier's stock dropped below \$1 in February 2016, pundits were pretty much expecting a bankruptcy filing.

The company hadn't received a new order for its troubled CSeries jets since September 2014, and the US\$2.5 billion in financial commitments from Quebec and the Caisse de Depot et Placement du Quebec (CDPQ) had failed to assure investors the company would stabilize.

Bombardier continued to burn through cash at a frightening rate, and the extended delays on the delivery of the CSeries planes it had sold meant that the company wasn't getting any revenue from the program. The board axed the [dividend](#) and brought in a new CEO in the hopes of changing investor sentiment, but the situation looked bleak.

As often happens, the stock began to recover right when it appeared all hope was lost. **Air Canada** came to the rescue with a major CSeries order. **Delta Air Lines** followed with a large purchase thereafter, and suddenly the skies started to clear.

Bombardier's stock recovered to \$2 per share through the spring of 2016, and more or less continued to rise until July of this year.

Airbus deal

The Delta deal upset U.S. regulators who viewed the sale as a form of subsidized dumping. Delta apparently received a discount that was much larger than the industry norm, and the U.S. government planned to slap tariffs of nearly 300% on the planes that would be delivered on the agreement.

To avert the possible loss of the deal, Bombardier agreed to sell a 50.1% stake in the CSeries to **Airbus**. The European giant will build the planes destined for the U.S. market at a facility in Alabama. In the wake of the announcement, the U.S. dropped the tariffs.

Airbus took control of the CSeries at the start of July 2018 and renamed the plane the A220. That's when investor optimism peaked, sending Bombardier's stock to nearly \$5.60 per share. The market hoped the transition would lead to a wave of new order from international airlines, but that hasn't happened.

Rising oil prices should make the fuel-efficient A220 more attractive, but airlines might be trying to get a deal similar to the ones received by Air Canada and Delta. Airbus has no incentive to sell the A220 at major discount, so it could be a while before another significant order is placed.

Transport division

Bombardier's rail group has its own challenges. The company has struggled with delivery delays on a streetcar order for the Toronto Transit Commission, and the high-profile disputes between the TTC and Bombardier might be affecting the company's ability to win new deals with other cities. In fact, Bombardier was not chosen earlier this year when Montreal picked its supplier for a major light rail transit project.

Bombardier is also part of a US\$5 billion rail deal in South Africa that is under a corruption probe.

Should you buy?

The stock might look cheap compared to where it was in July, but the downward trend could continue, especially in the absence of any big news from Airbus and the ongoing struggles faced by the transport division.

Investors who picked up Bombardier near the 2016 low might want to protect some profits. Those who are considering a new position in the stock should probably wait for confirmation that the pullback has run its course before hitting the buy button.

Other opportunities that exist in the market could be better bets right now.

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