Bombardier, Inc. (TSX:BBD.B): Has the Stock Plunge Gone Too Far?

Description

Bombardier (TSX:BBD.B) continues to lose altitude, and the share price is threatening to take out its 2018 lows.

Investors who'd hopped aboard in the summer are probably feeling a bit uneasy, while those who missed the big recovery over the past couple of years are wondering if this might be a good time to start a new position in the company.

Let's take a look at the current situation to see if Bombardier's stock should be on your buy list today.

Big reversal

Bombardier traded for more than $5.40 per share in early July and was close to $4.70 a month ago. Today, the stock is testing the $3 level, putting recent investors heavily under water.

This is a very different mood than we'd witnessed in the past two years, when Bombardier staged an impressive recovery that effectively saw the company come back from the brink of bankruptcy. At one point in early 2016, the stock traded for close to $0.80 per share amid fears that a lack of new CSeries jet orders and mounting debt pressure would be too much to handle, despite US$2.5 billion in commitments from Quebec and the province's pension fund.

The board brought in a new CEO and shelved the dividend to try to reverse the negative sentiment. In the end, a last-minute deal with **Air Canada** followed by a large order from **Delta Air Lines** saved the day. The stock recovered above $2 per share by the spring of 2016 and gradually drifted higher until it peaked this summer.

Interestingly, the rally received its second wind as a result of trouble that arose around the Delta Air Lines order. The U.S. government slapped tariffs of close to 300% on the CSeries jets that would be shipped to Delta Air Lines. The move came after an investigation that concluded the price being paid for the planes was substantially below the normal range of discounts in the industry. The U.S. determined Bombardier was effectively "dumping" the jets.

To skirt the issue, Bombardier negotiated a deal to sell a 50.1% stake in the CSeries business to Airbus, who would in turn build the planes destined for U.S. buyers at a factory in Alabama. The U.S. dropped the tariffs shortly afterwards, and Bombardier saw its stock catch a tailwind leading up to the July 1st takeover of the CSeries by Airbus.

Unfortunately, an expected surge of new orders for the jets, now called A220, has not materialized, and investors are bailing.

Transport

Bombardier Transport, which is the side of the business that builds trains and light-rail projects, is also facing some difficult times. The company just announced it will have a new president for the Americas region after the existing leader asked to be replaced for personal reasons.

The news adds more uncertainty for investors who are concerned about Bombardier Transport's ability to compete on the global stage. The company has lost key U.S. contracts to Chinese companies in recent years, and a planned merger of the rail divisions of European giants **Alstom** and **Siemens** could leave Bombardier in a tough spot.

Should you buy?

The debt position remains an issue and Bombardier continues to burn through cash. If the global economic situation starts to look a bit messy next year, Bombardier could see some anticipated orders for new planes or commuter trains get delayed.

The huge drop in the share price might look tempting, and any good news could trigger a sharp rebound. However, I would probably look for other opportunities in the market today. The recent pullback across the TSX Index is serving up some interesting deals.

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