Bombardier, Inc. (TSX:BBD.B) Stock Plunges Below $2: Is it Oversold?

Description

The bad news keeps coming for **Bombardier** (TSX:BBD.B) investors, but bargain hunters are looking at the recent crash in the stock price and wondering if there might be a contrarian opportunity to buy right now.

Let's take a look at the current situation to see if Bombardier deserves to be in your portfolio.

default watermark

Investigation

Last week, Quebec's financial markets regulator sent the train and plane maker's stock into another tailspin after reporting it plans to investigate the company's executive stock-sale program.

All executive stock transactions have been suspended until the issue gets resolved.

What's going on?

In August, Bombardier filed an executive stock-sale plan that indicated senior executives at the company, including CEO Alain Bellemare intended to unload millions of shares.

The stock traded for more than $4.50 per share at the time the plan was announced. Since then, the shares have fallen significantly, recently hitting a two-year low below $1.65 per share, on the news of the investigation.

The probe will determine if the CEO, CFO, and chairman have already sold any of the 14.5 million shares that were listed in the filing.

Bombardier had been spinning a pretty good turnaround story over much of the past two years, but the Q3 financial results just told a different story, and the stock has been under intense pressure since the numbers came out.

The company signaled it will cut 5,000 jobs and is selling two of its business units. In July, Bombardier also handed over a 50.1% stake in its troubled CSeries program to Airbus.

Bombardier continues to burn through cash at an alarming rate, and the US$9.5 billion debt pile is weighing heavier by the day. According to the Q3 2018 report, more than US$3 billion in debt is due by the end of 2021. Another US$2.9 billion is due by the end of 2023.

The company finished the third quarter with US$3.56 billion in cash and available credit, but that would be used up in fewer than three years at the current burn rate. Bombardier had negative cash flow of US$859 million for the first nine month of 2018.

Management says the company remains on track to meet its turnaround objectives. Investors, however, are not as sure as they were in the summer, and many are once again throwing in the towel.

Another bailout?

If the situation gets worse, Bombardier might need more assistance. The company received US$2.5 billion from Quebec and the province's pension fund in late 2015 and 2016. The capital injections enabled Bombardier to secure two key CSeries orders, which brought the stock back from the brink.

Bombardier's shares had dropped below $1 in early 2016, but eventually rallied as high as $5.40 this past summer. On November 16, they slipped below $1.60.

default watermark

Quebec has a new government and the economy and innovation minister said the province is prepared to help Bombardier after being pressured by the province's aerospace union to intervene.

Should you buy?

High debt, troubled plane and train divisions, significant layoffs, and investigations into executive stock-sale plans are not exactly the signs investors want to see when deciding to buy Bombardier stock.

A bounce could certainly occur after the major rout, but the outlook isn't great right now, and the positive spin might not work anymore. I would avoid the stock today.

There are other opportunities in the market that look attractive and likely carry less risk.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/07/06
Date Created
2018/11/19
Author
aswalker

default watermark

default watermark