



## A 9% Yield From Bombardier, Inc. (TSX:BBD.B)? Yes, it's Possible

### Description

Although **Bombardier** ([TSX:BBD.B](#)) hasn't offered a dividend on its common shares in years, there's still a way investors can bet on this potential turnaround while getting paid to wait.

The company has several preferred shares outstanding, issues that have seen their yields skyrocket in recent weeks, as the company's woes brought the price down.

Bombardier is [dealing with a plethora of problems right now](#). The company's inability to generate free cash flow is worrisome, and its balance sheet is a mess. While the company does look to have enough cash to see it through any near-term expenditures, upcoming debt maturities are looming large. And to make matters worse, the company's automatic stock-disposition plan is being investigated by regulators.

With all these headwinds, can investors count on the massive preferred share yields offered? Let's take a closer look.

### Ability to pay

Much has been made of Bombardier's struggles to generate meaningful cash flow.

It seems like every quarter is mired by some sort of special expense. The company might have to pay severance costs. Or make one-time investments in new equipment or facilities. It's always something.

2019 looks like it'll be more of the same. A US\$250 million charge will be taken to cover severance costs for 5,000 layoffs. Other one-time charges will total an additional US\$250 million. The company projects free cash flow to be around break even after accounting for those one-time items, but investors are skeptical.

The good news is the company will generate close to US\$1 billion after agreeing to sell its QSeries aircraft program and its flight training division. These one-time gains will help to shore up the balance sheet, at least temporarily.

Unfortunately, these sales will only make a dent in the big debt problem. Bombardier owes creditors some US\$9 billion, with US\$3 billion of that coming due by the end of 2021. If the company doesn't improve its financial position and show investors it can generate significant amounts of free cash flow by then, creditors may be unwilling to advance the company the money needed to roll over this debt.

## Enter the preferred shares

Each of Bombardier's three issues of preferred shares offer great yields. We're going to focus on the Series 2 preferred shares, which trade under the ticker symbol BBD.PR.B. They currently pay a dividend of \$0.078 per month and yield 9.1%.

First, let's focus on the reasons why this yield could be sustainable. All three of Bombardier's preferred shares combine to have a market cap of approximately \$300 million. In 2017, the company paid out just US\$23 million in preferred share dividends. The obligation is very manageable.

Then there are the consequences of suspending a preferred share distribution. This tends to only happen when a company is under significant financial duress. It sends a pretty negative message to investors — something Bombardier's execs would really like to avoid. Thus, it's safe to assume the preferred share distributions will only be cut as a last resort.

On the flip side, Bombardier's balance sheet is obviously in trouble. Many argue the company is in a debt crisis today, and things will get even worse by 2021. Bondholders ultimately call the shots here, and they may insist any new debt comes with a provision that says the company suspend preferred share payouts to free up cash for interest payments.

## Should you buy Bombardier's preferred shares?

Let's not kid ourselves: Bombardier's preferred shares are risky. They are among the highest-yielding preferred shares out there, which indicates they're among the riskiest out there.

Some investors aren't worried, content in knowing various levels of government will ultimately bail out the company, like what has happened before. But another Bombardier support package could prove to be political suicide. Many voters believe the government has far more pressing financial commitments.

Ultimately, I'd rather get a 5% yield I can count on than a dicey 9% payout. I'd avoid Bombardier's preferred shares here.

### CATEGORY

1. Dividend Stocks
2. 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. Dividend Stocks
2. Investing

## **Tags**

1. Editor's Choice

## **Date**

2025/09/10

## **Date Created**

2018/11/20

## **Author**

nelsonpsmith

default watermark

default watermark