Why Bombardier Stock (TSX:BBD.B) Should Be Avoided With a 135-Meter Barge Pole

Description

The turbulence which **Bombardier, Inc.** (TSX:BBD.B) investors have experienced recently has provided an excellent playing ground for day traders. The stock's rapid ascent since the beginning of 2016 (when the company's share price traded sub-$1 per share) to the recent highs of more than $5.50 per share seen just a few months ago can attest to this.

Now, the company's stock has once again dipped below $2. Here's my take on why the recent pummeling Bombardier shareholders have felt is unlikely to end anytime soon.

Insider selling

This past week, an investigation by Quebec's Autorite des Marches Financiers (AMF) into Bombardier's executive stock-sale program wreaked havoc on the company's stock, with Bombardier's share price declining more than 20% on Friday on the news.

This news compounds issues the company has had with cash flow numbers, which came in significantly below expectation, and cash flow forecasts that left much to be desired. The fact that a stock-sale program was initiated this summer just months before the release of these weak numbers is a huge red flag for any government oversight commission.

The number of shares looking to be sold by insiders is not trivial. Less management skin in the game is never a good thing for investors, who will certainly be shaking their heads at the whole situation. Coupled with the fact that the dual-class share structure of Bombardier means that these stock sales will not affect the majority ownership of the company by the Bombardier-Beaudoin families and you have a classic case of impotent ownership in which increasing one's stake in a company has zero impact on how management acts.

Analysts, investors and market makers pay particularly close attention to the signals sent to financial markets by insiders within organizations, for good reason. It is generally considered to be a very bearish event for a company when a stock-sale program is announced by insiders, or a stock issuance is announced, as these typically indicate when a stock is nearing a peak. Generally speaking, insiders want to get out when a stock is overvalued and buy more when a stock is undervalued.

More bailouts on the way?

Indications are that Bombardier is likely to continue to receive support from provincial and federal governments to help stop the bleeding. The governments of Quebec and Canada have skin in the game – years of equity and debt infusions have led Bombardier to be intertwined with multiple levels of government, providing a floor or "government put" for investors worried about whether the company will go bankrupt.

The reality remains that Bombardier, for better or worse, is one of those old money companies in protected industries (you can lump aerospace in with autos, dairy, lumber, oil, airlines and manufacturing). The company is run by one of the various families who have been in the game forever and have friends in high places. Various government ministers have indicated they are once again ready to step behind Bombardier to help the company continue on and protect those few thousand "strategic" Canadian jobs.

Bottom line

As fellow Fool contributor, Nelson Smith has indicated that now may indeed be the best time to Avoid Bombardier Forever. I've certainly not changed my tune – I've been a perma-bear on Bombardier since I first looked at the company's balance sheet and saw how the company was managed. I'm not saying I saw these more recent issues coming, but a combination of balance sheet issues, poor management, a history of continuous bailouts, and compound issues centering on a very difficult and low-margin business make this a company I would avoid with a 10-foot pole.

Stay Foolish, my friends.

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Date
2025/07/07
Date Created

2018/11/21

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