Bombardier, Inc. (TSX:BBD.B) Stock: Should You Buy the Bounce?

Description

The share price of **Bombardier** (TSX:BBD.B) surged more than 30% after a nasty rout that took the stock to its lowest level in more than two years.

Let's take a look at the current situation for the Canadian plane and train maker to see if it deserves to be in your portfolio today.

Lost altitude

Bombardier traded for $5.40 per share in July, shortly after Airbus took official control of 50.1% of the former CSeries business, now called A220.

What led to the transfer?

Cost overruns and extensive delivery delays in the CSeries program nearly pushed Bombardier into creditor protection in early 2016. The company cancelled the dividend in an effort to preserve cash flow and brought in new management to turn the company around. Two large orders then came in from **Air Canada** and **Delta Airlines**. That sent the stock surging from its low near $0.80 to the recent highs.

The recovery hasn't been without bumps. Threats from the U.S. to impose nearly 300% in anti-dumping tariffs on the jets destined for the Delta Air Lines deal forced Bombardier to negotiate the agreement with Airbus. The European giant will build all A220 planes for U.S. customers at a facility in Alabama.

Investors had hoped the transfer of the CSeries to Airbus would result in a flood of new orders for the planes. That hasn't happened, and the stock started to pull back through the end of this summer.

The latest plunge from above $4 per share in October to the recent low of $1.60 came as a result of a rough Q3 2018 earnings report, and a subsequent announcement of an investigation into an executive share-sale program.

In short, Bombardier continues to burn through cash and the US$9.5 billion in debt is back on the radar for investors who are wondering how and when the company will be able to shore up the balance sheet. The reaction to the news regarding the stock-sale plan was arguably overblown, which is why the stock recovered sharply in recent days, but it shows how nervous the market is regrading Bombardier's ability to deliver on its turnaround program.

Upside

At the time of writing, the stock trades at $2.26 per share. Any good news on new plane or rail deals could easily send the shares back above $3.

A *Reuters* report suggests Bombardier could be on the cusp of winning a bid to supply 999 rail transit vehicles to New Jersey. A win would go a long way to boost investor confidence in the rail division, especially after it lost bids in Boston and Chicago in the past couple of years. The winning bids in those deals came from Chinese state-owned companies.

The current trade tensions between the U.S. and China might benefit Bombardier in new bids for American rail contracts. The opposing bidder on the New Jersey deal is identified as a Chinese competitor.

Should you buy?

The stock could continue to recover after the brutal dip, but the long-term concerns for Bombardier warrant caution. Bombardier has enough liquidity to get through the next two to three years at the current burn rate, but the debt situation will need to be addressed. Roughly US$4.8 billion of the debt is due by the end of 2022.

Contrarian investors might want to start nibbling, but I would probably look for other opportunities in the market today.

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