Risk Alert: Why I Wouldn’t Touch Bombardier Inc. (TSX:BBD.B) Stock

Description

Speculation versus investing.

In speculation, the odds are not stacked in our favour. Similar to gambling at a casino, they are stacked in the house’s favour. Yes, the payout can be large, but the probability of losing hard-earned money is too great a risk.

Investing, on the other hand, is a less uncertain game, one in which we should try to stick with those investments that provide odds that are more in our favour. There is always some risk of course.

Moving on, let’s take a look at **Bombardier Inc.** (TSX:BBD.B), a stock that is currently in the speculation category.

Actually, it has been there for a while now.

It went from a stock market darling in the late nineties and then proceeded to crash and burn, tumbling from highs of more than $25.

At least the company has survived, but it is not what is once was.

Bombardier stock has come down 60% since this summer, and is trading at $2.20 at the time of writing, with a one-year return of negative 25%.

The company is using cash at a feverish pace, has introduced disappointing guidance, is seeing continued high capital investment, and is facing a seemingly never-ending struggle with lackluster demand.

Years of cost overruns, high debt levels, the inability to meet order deliveries according to schedule, and weak margins have certainly had a toll on the company.

And although the recent capital raise put Bombardier on a stronger footing, these deep grained issues run too deep to take the stock out of speculative territory.

Capital spending will remain elevated over the next year or so, debt levels are still high, and management and the company still need to prove themselves.

Further, a soft demand environment for its jets and planes remains.

In 2015, the company launched a five-year plan, or turnaround program, to enhance shareholder value creation.

The goal is to increase revenue by $4 billion, to greater than $20 billion, hit EBIT margins of more than 8%, and to generate sustainable free cash flow of between $750 million and $1 billion a year by 2020.

The company has many hurdles to overcome and the path forward will not be an easy one.

We can at least say that the company's transit division, which accounts for 50% of its revenue, will likely see strong growth drivers, as there is an increasing demand for mass transit solutions.

Bombardier is a leader in this area, but this is not a slam dunk, as Bombardier must do its part to secure this growth opportunity.

Supply chain issues and manufacturing problems have been blamed for missed deadlines with its Canadian transit projects, and while it looks like production has been ramped up, the company has not inspired confidence in its ability to handle transportation projects in general.

Big hurdles to overcome.

I would stay on the sidelines, as the risk/reward profile of Bombardier stock is not a favourable one.

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