Bombardier (TSX:BBD.B) Is Back On Track — But Is The Stock Worth Buying?

Description

Bombardier Inc. (TSX:BBD.B)could have exercised the option of repurchasing the 30% minority stake of pension fund Caisse de Depot et Placement du Quebec in its railway unit as early as February. The interest hasn't waned but the plane and train maker had to rethink its position.

Bombardier's railway business contributed 60% to the third-quarter revenues, amassing $2.14 billion in sales. Given the unit's strength, pursuing the buyback option is certainly justifiable and Bombardier can reap all of the profits. Unfortunately, the situation got ugly.

Buyback plan shelved

What sidetracked Bombardier was the recent selloff of the Class B shares. In a conference call last November 8, the company disclosed lowering cash flow estimates for 2018 and 2019. The revelation didn't seem to raise concerns as the stock price even climbed 9.96% to $2.65 on the following day.

The next week was atrocious for Bombardier. Investors were worried by the lower guidance on cash flows. On Monday, the stock price fell 5.66% to $2.50. A freefall ensued as the price kept dropping in each of the trading sessions.

The average trading volume for four days was 26,954,115, then rose by 270.43% to 72,892,516. When the session concluded on Friday, the price sunk 20.10% to $1.67. Although the buyback plan is favourable to Bombardier, the prevailing market condition is not.

Shares of Bombardier fared better last week after the selloff. The price jumped 23.95% to $2.07 on Monday, steadily rose then ended the week higher at $2.40.

Capital preservation

Bombardier Transportation received $1.5 billion investment from Caisse de Depot with guaranteed returns. Its estimated fair market value today is no more than $2.2 billion. In order to fund the transaction, Bombardier might have to issue debt, equity or a mix of both.

The dilemma stems from debts that are maturing soon and it would be prudent to preserve capital and meet that obligation. Also, Bombardier would not agree to sell debt or equity at a cheaper cost. Hence, postponing the buyback is the logical move.

Getting back on track

Investors know that market uncertainty is the reason why there's no green light for now. CFO John Di Bert reaffirmed during the said conference call that reacquiring the railway unit is high on the agenda. Once market conditions improve, the buyback plan could be set in motion.

In terms of liquidity position, Bombardier would have about $3 billion by year's end. The company is in far better shape than it was in 2015. For the third straight quarter, Bombardier reported profits after languishing in the red for 10 quarters previous to that.

Further, Bombardier is about to receive total net proceeds of nearly $900 million cash from the sale of the Q400 turboprop line and its factory. The asset sales are expected to be completed by the second half of 2019.

Even if Bombardier was derailed, investors should be comforted. It's business as usual with better things up ahead. The stock is worth watching as it could get back on track after a strong finish last week.

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Date
2025/07/20
Date Created
2018/12/01
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