Should Bombardier Inc. (TSX:BBD.B) Stock Be on Your Contrarian Buy List?

Description

Bombardier (TSX:BBD.B) has taken a big hit in recent months, and contrarian investors who missed the preceding rally are wondering if this is a second chance to pick up the stock at a cheap level.

Let's take a look at the current situation to see if Bombardier deserves to be in your portfolio.

Grounded

Bombardier surged from $0.80 per share in early 2016 to above $5.40 in July 2018. As we enter December, however, the stock is back down to $2.25, and investors are trying to decide where Canada's plane and train maker is headed next.

Bombardier's ability to recover from near-death experiences is the reason some contrarian investors are kicking the tires on the stock at this level, but others are saying this cat is running out of lives.

Bombardier's recovery from the brink in 2016 was fuelled by last minute orders from **Air Canada** and **Delta Air Lines** for the beleaguered CSeries jets. Bombardier hadn't received an order for the planes for more than two years due to extended delivery delays and cost overruns. In the end, US$2.5 billion in commitments from Quebec and the province's pension fund enabled Bombardier to secure the two large orders, although the low price points on the deals might have just kicked the problem can down the road.

The Delta order, in particular, was done at such a high discount that the U.S. government planned to impose tariffs of nearly 300% on the planes that were destined for the U.S.-based purchaser. This led to the transfer of a 50.1% interest in the CSeries to **Airbus**, which will make the planes in the United States. The Airbus deal concluded in early July 2018, and the CSeries is now known as the A220.

The market thought the shift to Airbus would spur a flurry of new orders, which is why Bombardier's stock topped $5.40 shortly after the deal closed. There's been no rush to buy the planes, and investors decided to start taking profits through the end of the summer.

In the past two months, the stock really started to slide. Bombardier's Q3 2018 earnings results indicated the recovery plan might not be rolling along quite as expected. The company announced it will shed 5,000 jobs and sell two of its subsidiaries in an effort to reduce expenses and shore up the balance sheet.

Cash burn remains an issue, and while the company hopes to turn things around in the next couple of years, investors are less confident Bombardier will be able to become cash flow positive fast enough. The clock is ticking on the company's US$9.5 billion in debt, as the notes start coming due in a big way in 2021, and refinancing is going to be either difficult, or very expensive, given the current state of the business.

Rail issues

Bombardier is hoping its rail division can save the day. The company is bidding on a large transit contract in New Jersey. Bombardier lost rail transit bids for Boston and Chicago in recent years, so there is some concern about whether it will be able to succeed on the New Jersey order. A recent *Reuters* report indicated Bombardier is the frontrunner to win the New Jersey deal. The company lost to a Chinese state-run competitor in the Boston and Chicago bids.

This time around, global politics might work in Bombardier's favour, as the U.S. and China are not exactly on great trade terms right now. That said, anything is possible with the current U.S. administration, so investors should be careful putting much faith in any rumours that Bombardier will win the contract.

In Canada, Via Rail might choose **Siemens** over Bombardier for a $1 billion contract for new trains. Federal transport minister Marc Garneau recently said that free trade rules with Europe prevent Canada from giving Bombardier preferential treatment on the deal. The market is taking this as a sign that Bombardier won't secure the contract.

Should you buy?

A win in New Jersey on the rail bid or a large A220 order from an international carrier could provide a quick boost to Bombardier's share price, but the longer-term issues remain a concern. At some point the debt has to be sorted out, and we could see the stock retest the 2016 low if the cash flow situation doesn't improve in short order.

Investors could see a rebound on good news, but I would probably search for other opportunities today.

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aswalker