Is Bombardier (TSX:BBD.B) a Dangerous Stock or a TSX Index Hero?

Description

While there has definitely been some good news of late, with a rallying TSX index driven by galloping energy stocks, and a ceasefire in the Sino-American trade war, there is still plenty of uncertainty ahead: oil prices are likely to remain volatile, Brexit is likely to send waves through global markets, and everything from real estate to the yield curve is worrying investors.

With this in mind, do we really need troublesome stocks like the following? Let's pick apart a Canadian aerospace staple and see what we're left with.

Bombardier (TSX:BBD.B)

Aside from anything else, Bombardier is a stock with fairly good growth ahead of it and a so-so balance sheet – though other readings may include a failing Canadian manufacturer, a stock that's shedding altitude faster than a plane with its engines cut, or just a plain (no pun intended) old liability.

Bombardier appears to be perennially on lists of TSX index stocks to watch, with buy calls often muted or guarded at best. It seems odd that something this big (with a market cap of $5 billion) could look be consistently flimsy – it underperformed both its industry and the market in the last 12 months.

The rest of the data is mixed, to say the least: a one-year past earnings growth of 95.9% is extremely positive and beats its own five-year average past earnings contraction by 5.4%; there has been some inside buying in the last six to nine months.

However, debt-wise, Bombardier has negative shareholder equity – a worse state to be in then simply having high debt, and negative P/E, PEG, and P/B ratios leave valuation a little hard to quantify; its share price is discounted by 24% compared to its future cash flow value suggests an undervalued stock, however.

While a lack of dividends counts this out as a stock for passive income investors, short-term traderslike it for its price fluctuations (Bombardier gained 2.35% in the last five days, for example), whilegrowth investors should note a 48.7% expected annual growth in earnings – one of the most plausible increases on the TSX index.

Air Canada (TSX:AC) might be a better buy if you're looking specifically to invest in Canadian aviation. It's big enough – with an $8 billion market cap, it outweighs Bombardier – and although it too comes bearing no dividends, it has a deeper discount (50% off its future cash flow value), legible market variables (such as a P/E of 18.3 times earnings), and brighter outlook, as evidenced by an expected future earnings growth by 58.9%.

The bottom line

One wonders from time to time what point there might be in owning Bombardier stock. It's not much of a momentum ticker, pays no dividend, and is of dubious value, while its negative shareholder equity would make it a weak link in a TSX index portfolio.

The one instance in which a defense stock may become suddenly lucrative would be if localized or international conflict were to intensify– but that seems an especially incongruous thing to bet on during the holiday season.

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Date
2025/09/22
Date Created
2018/12/06
Author
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