Why Bombardier Inc (TSX:BBD.B) Stock Fell 49% Last Month

Description

November was an absolutely brutal month for **Bombardier Inc** (TSX:BBD.B). Starting off the month at $3.31, it sunk to $1.67 by the 16th–a 49% drop. The stock has recovered since then, but long-term holders are still reeling from November's losses, which cap a longer-term downtrend that started in July.

It's one thing to point out that Bombardier shares slid last month. It's quite another to explain why they did. Yet for anybody currently owning BBD.B, the answer to that second question is paramount, as it can help determine whether this beaten-down stock has any hope of making a comeback.

To understand why Bombardier fell in November, we need to go back in history to one of the company's most beleaguered projects.

CSeries woes

The story of the CSeries is well known. In 2014, Bombardier commissioned a study to assess the feasibility of a new narrow body medium range jet aircraft. The study found the project to be feasible, and estimated development costs at just $2.1 billion (vs future revenues of $250 billion), and greenlit the jet.

The only problem is that the CSeries wound up costing Bombardier far more than expected, leaving it with an overleveraged balance sheet and many production delays. The company sold 50% of the project to Airbus in order to recover its losses and that was that.

What does this years-long drama have to do with a very specific short-term stock price swing in November?

Well, on November 8, an earnings report was released that showed that the CSeries drama was far from over. In fact, the project was still costing the company money, as it "resulted in a reduction in reported revenues," which were on the "lower end of the guidance range."

Sluggish revenue growth

As a result of the CSeries deconsolidation, Bombardier's revenue growth in Q3 was extremely poor, up a mere 5% year-over-year. Granted, earnings were up: net income turned around from a $100 million loss to a $108 million profit, while adjusted EPS was up from $0 to $0.04.

But the fact that revenue is only growing at 5% raises concerns. Such small revenue growth suggests that the comparatively big earnings growth was a simple matter of cost cutting. How long can earnings growth generated by job cuts and business unit spinoffs continue? We'll have to wait and see, but usually these measures don't fuel long term growth.

Operating cash flow still negative

A final point worth mentioning about Bombardier's Q3 report is that operating cash flow was still negative. This means that although the company technically eked out positive earnings, its core business activities are still losing cash.

Many investors, including Warren Buffett, see cash flow as a better gauge of profitability than net income, because it discounts one-off events that don't reflect long-term trends. If many Bombardier shareholders hold this view, then it's not at all surprising that November's earnings announcement would send the stock tumbling.

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