



Is Bombardier, Inc. (TSX:BBD.B) Stock Now a Buy Below \$2?

Description

Bombardier ([TSX:BBD.B](#)) is down 60% in the past six months, and contrarian investors are wondering if the negative sentiment surrounding the stock might be overdone.

Let's take a look at the current situation to see if this is a good time to add the stock to your [portfolio](#).

Volatility

Bombardier had a positive run in the first half of 2018, supported by optimism that the company might be making progress on its turnaround efforts. In addition, investors cheered the decision to shift a controlling interest in the troubled CSeries program to aerospace giant Airbus.

Bombardier's financial distress hit a critical level in early 2016. The company hadn't received a new order for its CSeries jets since late 2014, and despite commitments totaling US\$2.5 billion from Quebec and the province's pension fund, the stock continued to fall amid cash flow concerns.

In the end, Bombardier shelved its [dividend](#) and brought in new leadership to right the ship. A large CSeries deal with **Air Canada** put a floor under the stock, which had slipped below \$1 per share. A subsequent order from **Delta Air Lines** a few months later sent the stock back above \$2, and it drifted higher through July 2018, when it topped out around \$5.40 per share.

During that time frame, management did a good job of convincing the market the company was putting the bad days in the rear-view mirror.

However, the good times for investors quickly came off the rails in the back half of 2018.

Airbus took control of the CSeries in early July and renamed the plane A220. Analysts and investors hoped the switch would trigger a rush of orders from global airlines, but the wave of deals didn't materialize. One reason might be the fact that Delta Air Lines apparently received a major discount and other airlines might not be willing to pay a fair price for the jets. Airbus isn't interested in selling the planes at a loss, so it might take time for new orders to emerge.

Rail challenges

Bombardier's rail division is also working its way through some difficult times. The group has fallen behind on deliveries for its large streetcar order for the Toronto Transit Commission (TTC). The very public battle between Bombardier and the TTC might be a reason Bombardier has not been successful in recent bids. Montreal chose **Alstom** to supply units for its light rail expansion project and Via Rail gave its big contract to **Siemens**.

One bright spot is a Bombardier win to supply commuter trains to New Jersey. Hopefully, that will help the company win additional deals in the United States, where it has faced strong competition from Chinese competitors in recent years.

Should you buy?

At \$1.90 per share, Bombardier might appear attractive for a contrarian bet on a successful turnaround, but I would probably avoid the stock today. The company is carrying US\$9.5 billion in debt, and the notes start to come due in a big way in 2020. Cash flow burn remains an issue and until that situation improves in a meaningful way, the stock could be at risk of further downside.

At the very least, investors should probably wait to see how the next two or three quarters turn out before taking a position in the stock.

Other opportunities are worth considering today.

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