Is This the Year Bombardier, Inc. (TSX:BBD.B) Turns Things Around?

Description

Are penny stocks worth the trouble? On one hand, if a stock that is worth mere pennies takes off, investors could be handsomely rewarded. On the other hand, most penny stocks never take off, thus — some might argue — money is better spent investing in more secure bets.

Bombardier (TSX:BBD.B) isn't exactly a penny stock. The company is internationally renowned and is valued at over $6 billion. But investors currently considering Bombardier find themselves in a similar bind as those considering penny stocks. Will Bombardier's stock skyrocket, or will the company eventually be buried under a deluge of problems?

Recent struggles

Bombardier might currently look like a steal. At about $2 per share, some might bet on the aerospace and transportation company to turn things around. It is, however, difficult to overlook the problems Bombardier has run into. First, the company has not been very profitable over the past few years. 2018 was the first time since 2013 that Bombardier recorded a net income. Second, Bombardier's bad habit of missing delivery deadlines has contributed to its struggles.

Bombardier missed a number of deadlines to supply light-rail vehicles and streetcars to Toronto back in 2017. Despite its recent issues, Bombardier is hanging around, and some investors think the company's future is bright. If Bombardier manages to keep its recent head of steam going — and the company's share value increases significantly — those who decided to weather the storm could profit immensely.

Cost-cutting strategies

One of the reasons behind Bombardier's poor financial results has been woeful efficiency.Bombardier's gross profit margin decreased by about 7% from 2009 to 2017. Operating margin and netmargin have seen similar declines. Bombardier is well aware of this problem and has tried to improveits margins. Operating margin hit a five-year high last year.

But, more importantly, Bombardier took concrete steps to cut costs substantially in the future. Last November, the company announced it would be shedding 5,000 jobs. About 60% of layoffs will occur in Canada, with the remaining 40% coming from Bombardier's international operations.

This isn't the first time Bombardier engaged in mass layoffs, and much can be said about a company firing 5,000 workers. But from a purely financial perspective, this decision makes sense. Fortunately, that isn't the only measure the Montreal-based company took to improve profitability.

Bombardier will also be shedding various units, including its Q400 turboprop aircraft program, which it will be selling for US$300 million. Bombardier also announced the sale of its flight training business for US$645 million. These financial decisions will take some time to materialize. Once Bombardier's financial statements feel the impact of these measures, the company's net earnings should increase.

Investor takeaway

Bombardier currently has over $50 billion in order backlog. The company projects its revenues to reach $20 billion in 2020 (revenue for 2018 was around $16 billion). This is a testament to market demand, and if Bombardier can continue cutting costs, earnings contracts, and providing deliveries on time, things should continue to get better.

Still, it seems a bit premature to assert that Bombardier has successfully reinvented itself. While there is always some level of speculation involved in trading stocks, Bombardier looks too speculative a bet at the moment. I would hold off purchasing shares of the Montreal-based aerospace company, at least until it proves it can sustain profitability.

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