



How Risky Is Bombardier Inc. (TSX:BBD.B) Stock?

Description

With a one-year return of negative 22% and a five-year return of negative 30%, investors may ask whether the stock is finally too [cheap](#) to ignore.

To answer this question, let's look at just how risky Bombardier Inc. ([TSX:BBD.B](#)) stock is to try to determine the risk versus reward profile of the stock.

A long history

Bombardier has gone from a [stock market darling](#) in the late nineties to a perpetual dog, as persistent and non-relenting disappointments caused the stock to crash and burn, tumbling from highs of more than \$25 to just under \$3.00 today.

A steep and shocking fall, and while the company has at least survived, it is a mere speck of what it once was, having destroyed massive amounts of shareholder value.

Recent trading has seen the stock continuing its volatile run, and currently trading 47% lower than its summer 2018 highs, contrarian investors might be tempted to invest in this once favourite Canadian industrial giant.

I would argue that this would not be a good move, or at least not a good time to make this move, as some of the major tenets of investing do not hold true with this stock.

Don't lose money!

The number one rule when we invest is to not lose our hard-earned money.

With Bombardier, that has clearly not held up.

For contrarian investors considering getting into the stock now, what kind of visibility does this company provide?

While recent results came in better than expected, as strength in the business and commercial jet divisions drove free cash flow of \$1 billion and a year-end cash balance of \$3.2 billion, the situation remains precarious.

Bombardier will use cash at a feverish pace as the Global 7500 is ramped up, and the struggles in the transportation division remain.

Capital spending will remain elevated over the next year or so, debt levels are still high, and management and the company still need to prove themselves.

Put the odds in your favour

Investing should be an exercise of finding the right investments that put the odds in our favour.

When we are looking at a stock like Bombardier, one thing that becomes very obvious is that there is a lack of visibility that increases the risk. More important, the company's history shows us that we don't have a reliable set of financials to guide us.

Choppy orders, massive overspending, delays and disappointments are what have characterized this company.

Even the bright spot is weak

Although we can at least say that the company's transit division, which accounts for a significant portion of its revenue, will likely see strong growth drivers, as there is an increasing demand for mass transit solutions, even this has its problems.

Bombardier is a leader in this area, but this is not a slam dunk, as Bombardier must do its part to secure this growth opportunity.

Supply chain issues and manufacturing problems have been blamed for missed deadlines with its Canadian transit projects, and while it looks like production has been ramped up, the company has not inspired confidence in its ability to handle transportation projects in general.

Clearly, there are some big hurdles to overcome.

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