Why Bombardier, Inc. (TSX:BBD.B) Might Be a Great Contrarian Buy After Dropping 20%

Description

Bombardier (TSX:BBD.B) has crashed 20% in just the last two days of trading.

The stock, which looked to be on the road to recovery after climbing more than 40% since the start of the year and which posted four straight quarterly profits, reminded investors last week why it's still a very risky buy. Just a week before the company was due to release its quarterly results, Bombardier gave investors some preliminary results and an updated forecast for 2019.

For Q1, President and CEO Alain Bellemare said in the press release, "We had a soft first quarter driven by the timing of aircraft deliveries, foreign exchange headwind and a slower production ramp-up at Transportation." Revenues are expected to come in at $3.5 billion for the first quarter, which would be down around 13% from last year's tally of over $4 billion.

Not only is Bombardier softening expectations for Q1, but all of 2019 as well. Originally, the company was forecasting revenues to hit $18 billion for the year, which would have been an increase of approximately 11% year over year. However, that guidance was pulled down to $17 billion, with transportation revenues being adjusted down by $750 million and commercial aircraft by another $250 million. Adjusted EBIT is also now projected to be between $100-150 million less than the company's original expectations.

Company can't seem to turn things around

Bombardier has been able to find its way into the news for all the wrong reasons. Whether it is concerns about the quality of its products or losing bids, the company is making it hard for investors to seriously consider it as a long-term option.

This latest setback is just another reason why the stock might not be a good buy. Even though it has declined heavily, this is not even a new low for the stock — you only have to go back to February for the last time that it was trading this low.

It's not even in oversold territory either, trading at a Relative Strength Index (RSI) of less than 35 as of the end of last week. Once the RSI, which looks at a stock's gains and losses over the past 14 trading days, falls below 30, that indicates that the stock has seen a lot more selling than buying and that it is oversold and could be due for a reversal. However, more declines this week could certainly put it under an RSI of 30.

Could this be a good contrarian play?

Given that Bombardier's stock has dropped so much and the upcoming earnings are already factoring in what's supposed to a weak quarter, it might actually be a good play for contrarian investors. The risk that would have been related to the earnings release seems to be mitigated now that the cards are all out on the table.

The stock has had fairly strong support at around $2, and for investors that aren't risk-averse, it might not be a bad idea to try to wait to see if the stock will drop close to that level again. With a lot of bad news already out of the way, there might not be much to lose. Although Bombardier is still a risky buy, given the sharp decline, and especially if it continues to fall, it could be due for a recovery, as the markets tend to overreact.

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