



At What Stock Price Is Bombardier (TSX:BBD.B) a Buy?

Description

Bombardier ([TSX:BBD.B](#)) is a maker of trains and planes, and [investors](#) who have owned the stock over the past few years have certainly been on a wild ride.

Ups and downs

Canada's high-profile transport manufacturing company is constantly in the headlines, and most of the news in recent years has been negative. Despite the troubling debt position, ongoing cash burn, and regular sideswipe announcements that appear to come out of nowhere, the market somehow continues to go through moments of euphoria when it comes to this stock, only to see the optimism dashed by yet another negative development.

Challenges connected to the former CSeries jet program are largely to blame for the company's misfortunes. The new fuel-efficient jets were supposed to take the global airplane market by storm, attracting buyers from around the globe who would load up their fleets with the new innovative planes.

Initial interest was strong, but Bombardier soon ran into trouble on the development side. As delivery delays got pushed out again and again, cost overruns and the lack of anticipated revenue put the company's cash flow situation under stress. The US\$9 billion in debt hasn't helped.

New orders dried up and Bombardier eventually had to secure US\$2.5 billion in financial commitments from Quebec and the province's pension board to keep the CSeries program, and arguably the company, alive. At the darkest hour, Bombardier's stock dipped below \$1 per share as investors started to prepare for a potential bankruptcy filing. The company then brought in new management and shelved the [dividend](#) in an effort to appease the market.

Air Canada came to the rescue with a large CSeries order, followed by **Delta Air Lines**. The deals led to a rebound in the share price but also set the stage for further uncertainty. Threats from the United States to slap massive tariffs on CSeries jets destined for Delta Air Lines due to claims Bombardier sold the planes at prices deemed as “dumping” led to a deal to sell a controlling stake in the program to Airbus.

This set off an extension of the stock’s rally that peaked last summer shortly after Airbus officially took control of the CSeries, now called A220. Bombardier topped \$5.40 per share last July, and some pundits were giving it a price target of \$7 or higher.

Those who had the courage to buy at the lows should have grabbed their parachutes at that point and booked profits.

Bombardier came under scrutiny in the fall when a report came out that the company had put an executive stock sale plan in place that some people thought was inappropriate. The stock had already been under pressure through the end of last summer due to a lack of anticipated A220 deals. The revelation in the Q3 report that the turnaround program was stalling on the cash flow side sent the stock into a downward spiral.

Weakness in the broader equity markets didn’t help, and Bombardier bottomed out around \$1.70 per share in the last two months of the year.

The Q4 2018 report then came out in February 2019, showing the company actually finished 2018 in decent shape. That’s how it was presented, at least, and once again the market jumped on the bandwagon. Bombardier then managed to find buyers for US\$2 billion new debt to replace a big chunk of notes that were coming due in 2020 and 2021.

The share price rose to a high above \$2.90 last week in anticipation of more good news. Unfortunately, Bombardier just warned that more work has to be done. Production challenges in the rail division and delivery delays for its planes have forced the company to suddenly reduce its expected revenue for 2019 by US\$1 billion.

Should you buy?

Bombardier currently trades at \$2.25 per share. A quick look at the long-term chart pretty much tells the story. The company’s share price has been in decline for nearly two decades.

Traders might be able to make some short-term profits on the next bounce, but buy-and-hold investors should probably search for other opportunities today.

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