Why You Shouldn’t Let Bombardier (TSX:BBD.B) Poison Your Portfolio

Description

Investors in **Bombardier** (TSX:BBD.B) have seen their investment go through a turbulent period within the last month. The stock is down from its monthly high of $2.91 to a lowly $2.11. This represents a decrease of 27% and a warning to investors that it is time to move on from this underperforming stock. Strong foreign competition and a poor macroeconomic outlook have created concern for the company’s health.

Major competition

Bombardier is best known for its manufacturing of commercial and business aircrafts in the aerospace sector. However, it also operates in the ground transportation sector by manufacturing metros, buses, and trains in both the Canadian and international markets. Bombardier has been a pioneer in the transition from diesel and gasoline-based transportation to electric and carbon-free transport. However, it is not alone in the competition for contracts.

Chinese transportation manufacturer **CRRC** plans to bid on numerous projects and is expected to undercut Bombardier’s pricing. The Chinese firm announced that it will be bidding on the Washington, D.C. metro project in its continued efforts to bolster its U.S. market share.

Washington’s newest underground project estimates to pay approximately $500 million to the most competitive bidder. This would present a potentially huge loss to Bombardier’s revenue if it is outbid by its Chinese rivals.

Losing the numbers game

Bombardier is not only losing in its efforts to win manufacturing contracts. Its latest financial results for the first quarter of 2019 prove Bombardier is also losing the numbers game. It is hard to find optimism with virtually all key financial metrics showing regression from last year's first quarter. Revenues for all sectors of its operations are down 13%, with adjusted EBIT down 15% and cash flow from operating activities having decreased by a monstrous $436 million.

Although Bombardier cut its guidance for three of its four main operating industries, the ground transportation got the biggest slash. Initial 2019 revenue projections were aimed at $9.5 billion with an adjusted EBIT margin of 9%. Its revised 2019 guidance cuts these figures to $8.75 billion in revenues and an adjusted EBIT margin of 8%.

The big picture

These figures are enough to worry investors that Bombardier may be going through a significant decline. Even the macroeconomic environment has been unfriendly to the Canadian manufacturing giant. Bombardier announced it will be consolidating its manufacturing plants to North American locations as its sale of a northern Irish plant is completed due to Brexit.

The referendum of 2016 has taken a major toll on the industry in the United Kingdom and is forcing Bombardier out. This is a considerable downsize to accompany a weakening financial position.

What to take away

It is clear that Bombardier is a company to stay far away from. Its poor financial track record combined with its present consolidation of business and poor performance begs investors to look elsewhere for a strong investment.

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