Bombardier (TSX:BBD.B) Stock Drops Back to $2: Should You Buy?

Description

Investors are getting another reminder that **Bombardier** (TSX:BBD.B) is a volatile stock.

Losing altitude

The shares traded for more than $5.40 at their 2018 peak last July. At that time, investors and pundits alike had soaring expectations for a company that had apparently found its groove after years of troubles connected to its CSeries jet program.

The CSeries initially received a warm welcome from the global airline industry when Bombardier first promoted the new fuel-efficient jets. Unfortunately, Bombardier ran into a number of development, production, and delivery delays that drove up costs, reduced revenue, and soured appetite for the planes.

At the darkest hour, the company's cash burn got to the point where Quebec and the province's pension fund had to provide US$2.5 billion in funds to keep Bombardier going. The stock continued to struggle, however, even after the injections had been announced, and Bombardier plunged below $1 per share in early 2016.

The board then shelved the dividend and brought in new management to help turn things around and the initial results were positive. Large CSeries orders from **Air Canada** and **Delta Air Lines** saved the day, and although the discounts provided caused the company more grief, the deals likely kept Bombardier alive.

The stock recovered above $2 and continued to drift higher after a late-2017 decision to sell a majority stake in the CSeries business to Airbus.

Airbus officially took control on July 1 last year, and analysts started boosting stock price targets to $7 or above on the assumption that Airbus would receive a wave of new orders for the jets, now called A220. Those purchases failed to materialize, and the stock dropped back below $1.70 last November.

A positive Q4 report brought bargain hunters back to the stock, driving Bombardier to a high above $2.90 in late April. Bombardier then dropped another bomb, reducing revenue guidance by US$1 billion for 2019 citing troubles in the rail division and delivery delays in the remaining jet businesses.

Since then, the stock has trended lower and just hit $2 per share.

Should you buy?

Each time Bombardier says its turnaround program is on track, the company follows up with another disappointment. The rail division lost two significant Canadian bids last year. Montreal and Via Rail both decided to go with European competitors. Globally, Bombardier is battling against aggressive Chinese companies, and two of Europe's largest players in the rail industry recently failed in their attempt to merge.

Cash burn remains an issue, and Bombardier is loaded with US$9 billion in debt.

A rebound in the stock is certainly possible, but recent history suggests that would be a benefit for nimble traders, not investors who are looking for a stock to own for years. You might be able to make a quick buck on the next bounce, but I would keep any speculative position small.

In fact, it might be best to simply search for other opportunities today.

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