Should Bombardier (TSX:BBD.B) Be on Your Contrarian Buy List Today?

Description

Bombardier (TSX:BBD.B) continues to work through its turnaround plan, and investors searching for beaten-up stocks that might offer some nice upside potential are wondering if this is the right time to own the shares.

Let's take a look at the current situation to see if Bombardier deserves to be in your portfolio right now.

Asset sales

Bombardier exited three segments of the commercial airline market in the past year. Last summer, the company transferred a majority interest in its troubled CSeries jet program to Airbus. The move capped off several years of cost overruns and delivery delays that nearly pushed Bombardier into bankruptcy in early 2016. The CSeries is a fine jet with fuel-efficient operations and strong reviews from the clients who have received their planes, but the program ran into trouble, and Bombardier was forced to sell the planes at huge discounts to keep the business alive.

Under Airbus, the renamed A220 planes are expected to thrive as part of the broader fleet, but a wave of expected orders has not materialized, and that is one reason Bombardier's share price fell from $5.40 last July just after the transfer to Airbus to the current price around $2.20.

Bombardier is carrying about US$9 billion ($11.7 billion) in debt. That's a heavy load for a company with a market cap of $5.4 billion, and the balance sheet remains a constant concern. In an effort to raise funds, Bombardier recently sold its Dash 8 line of planes for $300 million. The company also just announced an agreement to sell its CRJ program for US$550 million. The cash infusion and reduced expenses should help. The CRJ group was once the flagship business for Bombardier but now loses money.

As a result of the dispositions, Bombardier's only remaining airline division makes business jets.

Rail trouble

The train business has also had its share of difficulties in recent years. Bombardier has struggled with manufacturing problems and delivery delays on some high-profile contracts, including the large streetcar order for the Toronto Transit Commission (TTC). A very public battle between the TTC and Bombardier might have hurt Bombardier on other project bids. The company lost out to Chinese competitors in Boston and Chicago. At home, Montreal and Via Rail decided to give their business to European firms in two significant contracts issued last year.

Bombardier no longer pays a dividend and had to turn to Quebec and the province's pension plan for US$2.5 billion in cash infusions to keep it alive.

Should you buy?

The stock has the potential to deliver big gains in a short time frame, as we saw when Bombardier rose from $0.80 in early 2016 to above $5 last summer. However, ongoing volatility should be expected, and the stock can fall significantly on bad news. For example, the company shocked the market in recent months by issuing a warning that its 2019 revenue would be US$1 billion lower than expected. Bombardier was at $2.90 before the warning and quickly fell to $2 per share.

Traders could be interested in taking a small position with the idea of making some quick profits on the next bounce, but buy-and-hold investors might want to wait for Bombardier to deliver a few quarters of solid results before taking the plunge.

I would search for other opportunities today.

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