Bombardier (TSX:BBD.B) Makes Major Announcement: Should Investors Buy the Stock or Bail Out Today?

Description

Bombardier (TSX:BBD.B) just announced major layoffs at one of its Canadian facilities. The stock barely moved on the news, and that has contrarian investors wondering if the bottom might be in place for the shares.

Order woes

Bombardier just dealt Thunder Bay a big blow by announcing it will cut 550 jobs at its manufacturing site in the northern Ontario town. That represents about half of the employees currently working at the light-rail assembly plant.

Politicians are making a fuss, but the decision shouldn't come as a surprise. Bombardier needs more orders to maintain the employee level at the site.

Metrolinx, Ontario's regional transport agency and the operator of the Go Transit fleet in the GTA is one potential order source. The Toronto Transit Commission (TTC) is also a large customer. Unfortunately, Bombardier has missed several delivery dates in the past few years on major orders for both groups.

The problems on the streetcar order for the TTC are well known to followers of Bombardier. Significant delays have frustrated the city, and many of the vehicles that were finally delivered had to be sent back to be fixed. The TTC's battle with Bombardier has soured the city's incentive to award Bombardier more business.

Metrolinx started to receive its newest light-rail transit vehicles earlier this year, but that order initially ran into significant delays, and Metrolinx subsequently reduced the number of vehicles it would buy from Bombardier from 182 to 76. Ontario's regional transport agency recently told Bombardier it would take an additional 36 vehicles, but that is not enough to save jobs at the plant.

Had Bombardier been able to meet its obligations on the contracts, pundits say the company would have won new orders. For example, Bombardier lost a major contract to supply light-rail vehicles to Montreal. It also lost the bid to supply trains for Via Rail. Both deals went to European bidders last year.

A lack of a Canadian-content clause in those contracts is being blamed.

Should you buy Bombardier?

The stock trades at $2.20 per share compared to $5.40 last summer. In early 2016, it fell below $1 when the board shelved the dividend and brought in a new CEO to right the ship.

Management says the company is on track in its turnaround efforts, and the sale of the commercial airline businesses in the past year will help reduce losses. However, debt remains an issue, and competition remains fierce for the rail division.

Traders might be able to pick up a quick profit on a bounce, but a look at the stock's performance over the past 20 years suggests buy-and-hold investors might be better off searching for other opportunities today.

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