Is Bombardier (TSX:BBD.B) Stock Set for a Comeback?

Description

Bombardier Inc (TSX:BBD.B) has been having a wild ride this year. After getting off to a great start, it started tanking on April 24, shortly before its Q1 earnings were released. Since then the stock has fallen 24%–although it is still up slightly for the full year.

Bombardier's volatile price swings come at an equally volatile time for the company itself, which has seen numerous job cuts and pressure from global trade tension. Nevertheless, the company managed to post (some) impressive figures in its most recent quarter, suggesting that it may not be all over for Canada's #1 plane and train company.

For years, market commentators have pondered whether Bombardier–whose stock price peaked in the early 2000s–could be set for a comeback. To understand whether that's possible, we need to look at why the stock started crashing in the first place.

Sources of Bombardier's woes

Bombardier's problems date back to the early 2000s, when the company began spinning off struggling business units to private equity firms like Bain Capital. However, the issues became more serious around 2015, when the company's C Series project became a serious and lasting liability.

The C Series was designed to be a medium-range corporate jet airliner. The project was initially estimated at about $2 billion in total costs, but ran into a number of cost overruns. After tabs ran up to over $5 billion, Bombardier found itself with a highly leveraged balance sheet. The company also ran into problems with selling the aircraft. As a result, it had to sell off 50.1% of its stake to **Airbus** in a deal that left it financially responsible for any further cost overruns.

As a result of the C Series fiasco, Bombardier was left highly leveraged and without much to show for it. Shortly after that, the company began to try to turn things around.

Aggressive cost-cutting

After the C Series was spun off, Bombardier turned its attention to cost=cutting and trimming its operations. To that end, it began laying off workers and selling business units. Last year, the company laid off 5000 employees, and another 550 followed this year. The company also sold off its business aircraft training division for $645 million. These cost-cutting initiatives have undoubtedly reduced Bombardier's debt load. However, whether they will help the company grow remains to be seen.

Time for a comeback?

The effects of Bombardier's cost-cutting efforts can be seen clearly in the company's most recent quarterly report. In Q1, the company's revenue fell 13%, while net income grew a whopping 443%. It's clear that by cutting costs, Bombardier has made itself a leaner and more profitable operation. However, because the cost-cutting strategy entails selling off businesses, revenue is taking a hit, which raises the question of whether all these cuts will allow any lasting growth.

Personally, I wouldn't be buying BBD.B right now. With most of the recent profitability increases coming from cost-cutting initiatives that threaten growth, the company's future is too up in the air. It's interesting to speculate on whether the company will be able to grow from a smaller base once its weakest business units are sold, but so far the data isn't clear on that.

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Date
2025/07/06
Date Created
2019/07/17
Author
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