Warning: Is Bombardier (TSX:BBD.B) Stock Going Back to a Buck?

Description

Bombardier (TSX:BBD.B) is losing altitude again, and investors are wondering how low it could go before bargain hunters step in to place a contrarian bet.

Let's take a look at the current situation to see if this is a good time to add Bombardier to your portfolio.

Stock plunge

Bombardier fell more than 20% in early trading on August 1, slipping from $2.27 to $1.80 per share. The latest downturn is the result of yet another revenue warning from the company, as it reported weak results for Q2 2019. Bombardier said it continues to battle through challenges at its rail division. As a result, adjusted core earnings for 2019 are now expected to be $1.2-1.3 billion compared to previous guidance of $1.5-1.65 billion.

Earlier this year, Bombardier surprised investors with the revelation that it would book US$1 billion less in revenue in 2019 than previously expected. This was a shock to investors who had bid up the share price through the first part of the after the company gave a rosy outlook when it reported improved results for Q4 2018.

Bombardier managed to find buyers for US$2 billion of new debt at the beginning of 2019 to replace notes that were coming due. The timing was fortuitous for the company, given the meltdown in guidance we have seen the subsequent months. Bombardier has more than US$3 billion in debt coming due in 2021-22, and it might have to pay more than the 7.875% it had to offer on the debt issued in March.

Ongoing challenges

Bombardier has struggled to meet delivery deadlines on large contracts for Metrolinx and the Toronto Transit Commission, and manufacturing errors on the TTC street cars actually required sending a number of the vehicles back for welding repairs.

The bad press and missteps might be the reason Bombardier lost out on key Canadian contracts last year.

Via Rail gave a $1 billion contract to **Siemens**. The German company will build the 32 new trains at its facility in California. Siemens also picked up a 15-year maintenance contract for an additional $355 million.

In another blow, Montreal decided to go with **Alstom** and **SNC-Lavalin Group** rather than Bombardier for its new light-rail project.

In 2017, Bombardier was shut out of the bidding for a contract to supply New York with roughly 1,700 new subway cars. Bombardier faced challenges on a previous order with the city, delivering vehicles nearly two years late.

Should you buy the dip?

Bombardier burned through another US$429 million in cash in the second quarter, bringing the negative cash flow to US$1.5 billion in the first half of 2019.

On that pace, its June 30th cash position of US$3 billion will be wiped out next year. Net proceeds from the US$550 million sale of the CRJ program will provide a short-term cash infusion, but things could get tight if revenue doesn't improve. Management is running out of assets to liquidate to keep the company afloat.

Bombardier received US$2.5 billion from Quebec, and the province's pension fund the last time the company faced a cash crunch in late 2015. By early 2016, the stock was down to $0.80 per share.

Traders might be able to pick up a quick profit on a near-term bounce. However, there is a risk investors will start to give up on Bombardier, sending the stock back to the 2016 low. The federal government might step in with a bailout, but that isn't guaranteed. We don't know who will be in power in Ottawa next year.

Given the revenue warnings and the ongoing cash burn, I would search for other opportunities today.

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