Why Bombardier (BBD.B) Stock Fell 24% in August

Description

In a month that saw **Bombardier** (TSX:BBD.B) report second-quarter earnings that featured 9% organic growth backed by healthy demand for aircraft deliveries, the company's shares fell 24% during August.

So, what exactly went wrong for investors?

Revenues in Canada's leading aerospace and defence company were 1% higher in the second quarter, backed by 9% organic growth a year after it divested itself from the troubled CSeries program.

Yet despite higher revenues, the disappointing news for investors stemmed from management's announcement of downward revisions to its previously announced forward guidance for the remainder of 2019.

Those revisions included updated expectations for full-year aviation revenues of approximately $8 billion towards the low end of the company's initial expectations from the start of the year, led by a total of 175-180 aircraft deliveries in 2019 including 15-20 Global 7500 but reflecting five fewer CRJ deliveries, the result of a customer's order that was cancelled after the quarter ended.

Unfortunately for investors, however, those lower anticipated revenues will be expected to have an outsized impact on forecasted profits through the remainder of 2019.

That anticipated impact includes lower estimates for full-year adjusted EBITDA and full-year expected EBIT by $300 million each, respectively.

Losses, meanwhile, stand to represent an approximate 20% cut to BBD's original forecasts for adjusted EBITDA and a close to 30% cut to its previously released forecasts for adjusted EBIT.

All of this means that perhaps it isn't all that surprising Bombardier stock has dropped 24% since the announcements were made, roughly equal to the forecasted drop in adjusted earnings.

Looking ahead

Yet the bigger story moving forward will be whether or not Bombardier will be able to execute effectively on the programs it already has underway.

Current guidance now is for BBD to consume close to $500 million in cash this year following an additional $200-$300 million of investments that it will need to make in its transportation business.

But while liquidity isn't exactly a huge concern at the moment, BBD's burn rate is likely a factor that will be closely watched by analysts over the coming quarters.

Management's current expectation is for the company to finish 2019 with more than $3 billion in cash and equivalents and more than $4 billion in available liquidity in addition to net proceeds of $550 million from the sale of its CRJ program, which is expected to close during the first half of 2020.

However, in light of the fact that the company has already consumed $429 million of free cash flow through the first two quarters of 2019, there's no question that things will have to turn around in a hurry to essentially break even with where it stands today.

This is, after all, a company that got itself into hot water not so long ago, the result of persistent cost overruns with its CSeries program, and it ultimately had to be rescued by Investissement Québec and later sold to Airbus SE; BBD retains a minority stake in the revamped A220 program.

Meanwhile, since being handed over to Airbus, the A220 program has continued to gain momentum, including close to 300 new orders and new agreements reached with several major international airlines.

Management at BBD will need to a lot in the coming months and quarters to re-establish investor confidence in the company.

Second-quarter results were most definitely a setback for the company; however, this stock has historically exhibited support at levels under $2 per share.

Those with a healthy appetite for risk may want to consider stepping in to take advantage of the latest opportunity.

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