



## Contrarian Investors: Is Bombardier (TSX:BBD.B) Stock a Buy Today?

### Description

The TSX index is trading near all-time highs, but not all stocks are participating in the rally, and some of those that have fallen on difficult times are starting to catch the eyes of [contrarian](#) investors.

Let's take a look at **Bombardier** ([TSX:BBD.B](#)) to see if it deserves to be on your [buy list](#) right now.

### Stock plunge

Bombardier trades for \$1.75 per share, which isn't far off the 2019 low and is down significantly from the \$5.40 mark it hit in July 2018, right after Airbus took control of the CSeries jet program.

The big concern for Bombardier is the balance sheet. The company is carrying more than US\$9.3 billion in debt. That's about \$12.25 billion in Canadian dollars, which is a lot for a company with a current market capitalization of \$4.2 billion.

The debt would be less of an issue if the road to strong profits and free cash flow were clear, but Bombardier continues to say it is on track, only to release bombshell disappointments that suggest this isn't the case.

For example, the company warned earlier this year that it would miss revenue guidance by US\$1 billion in 2019 due to delays in the rail division.

Cash burn is worth watching, as a turnaround will need to occur in the coming year to avoid a potential crunch. Bombardier had negative cash flow of US\$1.473 billion in the first six months of 2019.

Cash and cash equivalents at the end of Q2 were \$2.957 billion, so that would cover the current rate of cash burn for the next year. In addition, Bombardier will receive US\$550 million for its sale of the CRJ jet program, and the company has US\$689 million in unused credit facilities, so it could be okay through the end of 2020 at the existing pace of cash usage.

This doesn't give it much time.

The rail division continues to struggle with manufacturing challenges and delivery delays. The battle with the Toronto Transit Commission on the delayed delivery of streetcars is one example.

There are concerns that the problems encountered on this and other deals have resulted in lost contracts. Via Rail gave a \$1 billion order to **Siemens** and Montreal chose **Alstom** for its LRT expansion project last year.

On international bids, Bombardier has to compete with the European companies as well as aggressive state-backed Chinese firms.

An opportunity to win more business in the United States could emerge now that the Americans and the Chinese are stuck in a trade dispute. Bombardier was awarded a US\$669 million contract by New Jersey Transit in late 2018.

New York just revealed plans to spend tens of billions of dollars on transit upgrades, including signalling contracts and 1,900 new subway cars. Bombardier will hope to win some of the business from its long-term customers, but problems with the most recent deal with the city could hinder its prospects.

## Should you buy Bombardier?

The clock is ticking on the cash position unless the burn rate can slow down significantly and Bombardier can start to boost revenue.

At the current price, there is good upside potential on a turnaround, but the track record to date isn't good. As such, I would probably search for other opportunities in the market.

A number of other cheap stocks might be better picks today for a contrarian portfolio.

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aswalker

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