What It Will Take for Bombardier (TSX:BBD.B) to Soar

Description

Similar to fellow Canadian aviation company **Air Canada**, the only way shares of **Bombardier, Inc.** (TSX:BBD.B) will take off in any meaningful way in the next decade will be massive government intervention in the way of an explicit or implicit bailout.

Some would argue the company has already been granted enough in the way of handouts to feed an entire province for a very long time. While that may be true, my take on this stock is that it will need an “Air Canada-sized” investment to stay afloat in any meaningful way long-term for a variety of reasons.

Apart from the legal problems the company faces on multiple fronts (I’ve covered this in depth in the past), the lack of any sort of growth lever in the train making business (now the company’s primary business), and a dual-class share structure which has kept mismanagement in charge for far too long, there simply are too many questions for any sane long-term investor to bet on this company soaring over the medium to long term.

The fundamentals of the transportation manufacturing business are deteriorating for niche manufacturers like Bombardier, who face stiff competition from American and European State-sponsored enterprises — companies willing to forego margins in the short term to ensure long-term market domination, driving out companies like Bombardier from the fray.

Some would say the “partnership” between Bombardier and **Airbus SE** was nothing short of a squeeze from the two largest players in the global market, with Bombardier forced to choose whom to capitulate to.

With more than $10 billion in debt and a profit margin hovering around 1%, Bombardier’s balance sheet could make any investor queasy.

With major risks such as a rising Canadian dollar, manufacturing shifting from Canada to lower-cost global locales, union negotiations, increased competition from Asian players, trade wars heating up, and a myriad of other potential headwinds which may or may not play out, the safe thing for long-term investors to do is avoid this company at all costs.

Some “cigarette-butt” investors may pick up on the fact that Bombardier is historically cheap, and may look to make a pretty penny off short-term fluctuations in the company’s stock price (as we saw the company’s management team do) during the impressive 2018 boom and bust cycle the company has experienced.

Bottom line

The fundamentals of this company will not improve over the long-term without continued explicit direct government intervention at the federal and/or provincial level.

For those willing to make that bet, I’d suggest buying calls rather than going long on this company, as it is not a buy and hold play by any stretch of the imagination.

Shorting the company can also be a foolish exercise for investors, as at some point one must believe that government will step in at some level to stop the loss of jobs and save votes, given the relative importance of Quebec to the overall political landscape.

In that sense, there’s no safe trade here for a long-term investor, other than staying on the sidelines. Trade away, my friends, but don’t be surprised when volatility inevitably turns the wrong way and knocks your position out of whack.

Stay Foolish, my friends.

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