Is Bombardier (TSX:BBD.B) Stock a Contrarian Buy for 2020?

Description

Contrarian investors are searching for out-of-favour stocks that might be on the cusp of a rebound heading into 2020.

Let's take a look at **Bombardier** (TSX:BBD.B) to see if the stock deserves to be on your contrarian buy list.

Tough year

Bombardier started 2019 near $2 per share.

The share price fell heavily in the last part of 2018 after the company disappointed investors with its Q3 2018 results and faced criticism over an executive stock-sale program.

Bombardier significantly cut its cash flow forecast when it released the Q3 2018 numbers and came under fire for a plan that was announced in August that would allow the CEO, CFO, and chairman to unload millions of shares.

The stock traded above $4.60 when the plan was first announced, but fell below $1.70 in the middle of November last year. Bargain hunters moved in after a 30% plunge in a single week and the stock recovered some ground to start 2019 at $2.

In a surprising turn of events, Bombardier released improved Q4 2018 results in February 2019 with a decent revenue outlook for the year. Shortly after, the company managed to issue US$2 billion in new debt due 2027 to replace notes coming due in 2020 and 2021.

The stock surged from $2 to $2.95 following the Q4 2018 results and investors started to believe, once again, that the turnaround program might finally be on track.

Unfortunately, the good times didn't last very long. On April 25 Bombardier warned that its 2019 revenue would be about US$1 billion lower than previously forecast.

The company said ongoing problems in its rail division and delivery delays on some planes were the cause for the reduced guidance.

Rail revenue would be US$750 million lower as it continued to struggle with production challenges.

The high-profile battle with the Toronto Transit Commission in recent years on delayed streetcar deliveries might be one reason the company recently lost two large Canadian contracts.

Montreal went with a European competitor for its light rail expansion project. Via Rail also chose a European provider.

On the aerospace side, Bombardier has exited the commercial aircraft segment. It sold a majority stake of its CSeries program to **Airbus**. Sales of the renamed A220 have not taken off after the division went under the Airbus wing.

Bombardier also sold its Dash 8 and CRJ businesses.

It continues to produce the line of business jets that are expected to help bring the company out of its doldrums in the coming years. However, a global economic downturn could put pressure on business jet orders.

Cash flow

Bombardier continues to burn through significant cash. The business had negative cash flow of US$682 million in the third quarter, putting the nine-month total for the year at US$2.155 billion.

Bombardier finished Q3 with US$2.255 billion in cash plus another US$755 million in useable credit lines, giving it just over US$3 billion in available funds. This would last about a year at the current cash-burn rate.

Bombardier is expected to receive about US$550 million for the CRJ sale, so that would extend the lifeline a bit, but there isn't much room for further revenue setbacks.

In addition, another US$3 billion in debt is coming due in the next two years. Given the current situation, Bombardier might have trouble replacing the notes with new debt that is reasonably priced.

Should you buy?

The stock currently trades for just under $2 per share at writing. Any positive news could certainly provide a nice boost, but the track record has not been great in recent years and Bombardier is running short of time to get revenue rolling in and stop the cash burn.

I would probably search for other opportunities for 2020.

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Date
2025/09/28
Date Created
2019/12/18
Author
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