$100 in Bombardier (TSX:BBD.B) in 2018 Is Worth This Much Now. Warning: It's Ugly

Description

It should come as no surprise that **Bombardier** (TSX:BBD.B) stock has had a rough few years. Operational problems, delivery delays, high-profile squabbles with clients, such as the Toronto Transport Commission, and lacklustre financial performance have all weighed heavily on the stock.

If you're a shareholder or potential investor, it's worth taking a look back and seeing just how much wealth this industrial giant has ignited recently. Since July 2018, Bombardier Class B shares have lost 65.4% of their value. That's nearly two-thirds, which means a $100 investment in 2018 would be worth just $34.6 today!

In fact, Bombardier has been one of the worst-performing stocks of the past decade.

Things don't seem to be getting better for the company this year either. The company is expecting lower-than-anticipated sales for both 2019 and 2020. Meanwhile, debt has surged to a precarious level.

Nevertheless, the company still stands a chance of turning things around and delivering a decent return for contrarian investors willing to take the risk.

Silver linings

Even the crummiest businesses have some hope of salvation, which is why they're still going concerns. Bombardier, like most other struggling enterprises, needs to clamp down on its debt burden, boost sales, and chart its way back to sustained profitability.

Fortunately, there are signs that the company's management is taking concrete steps to achieve all three factors.

Revenue from the company's transportation segment rose 5% year over year to $2.2 billion in the third quarter of 2019, while sales in the aviation segment expanded by 10% to $1.6 billion. A steadily expanding top line is always a good sign.

Meanwhile, the balance sheet is improving slightly as well. **Spirit AeroSystems Holding** agreed to purchase the company's commercial aerostructures business for $500 million last year. That adds more strength to the company's sizable cash hoard of $2.46 billion.

Growing sales and cash balances should propel the company forward. However, Bombardier won't be clear of danger until its cash flow turns positive and its debt burden becomes more manageable.

Valuation

Considering the company’s underlying risks, it seems fair that the stock is trading at a distressed valuation. Shares currently trade at a enterprise value/revenue ratio of 0.91 and a enterprise value/EBITDA ratio of 15.8.

My Fool colleague Chris MacDonald recently pointed out that the only viable catalyst for Bombardier is a government bailout, which isn’t beyond the realm of possibility. In the event of a massive bailout, patient shareholders could be handsomely rewarded with a spike in market value.

However, since such a major move is completely unpredictable, the stock is little more than a speculative buy at the moment. Investors seeking a deep bargain with disproportionate risk and upside should probably add it to their watch list.

Bottom line

$100 invested in Bombardier just 18 months ago would be worth just under $34.6 today. It’s been a tragic story of corporate failure over the past two decades, but there’s still hope for a happy ending, most likely sponsored by the government. With that in mind, speculative buyers should probably add a little exposure to this stock in 2020.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date
2025/07/05
Date Created
2020/01/15
Author
vraisinghani