



Bombardier (TSX:BBD.B) Shares Tank 32%: Is This the Beginning of the End?

Description

It has not been a good day for **Bombardier** ([TSX:BBD.B](#)) shares. Class B shares are down 32% in early trading Thursday morning on the Toronto Stock Exchange.

That is a big move, even for a stock as volatile as Bombardier. So, what happened?

It seems like Bombardier disappoints investors every six months or so, telling the market earnings will be significantly lower than expectations. That's exactly what happened here, as the firm came out and pre-announced its fourth-quarter earnings wouldn't be up to par.

The company's earnings before interest and taxes was expected to be approximately US\$700 to US\$800 million in 2019. That number will be closer to US\$400 million. Free cash flow, which was expected to check in around negative US\$500 million for the year, will likely be closer to a US\$1.2 billion loss.

Just about every part of the company delivered disappointing results. Its business jet unit will see deliveries of four jets slip into 2020. The transportation division will lose money in 2019 after it takes a big charge related to a U.K. rail contract, too.

Even Bombardier's partnership with Airbus could be in jeopardy. The joint venture — which produces the Bombardier CSeries plane, now called the Airbus A220 — will need an additional investment, cash Bombardier really can't afford to give up right now. It may have no choice but to leave the partnership.

Add it all together, and it's some very bad news. No wonder Bombardier shares are having their worst day ever as a publicly traded company, at least on a percentage lost basis.

Can the company pull itself out of this tailspin, or is it the beginning of the end? Let's take a closer look.

Throwing in the towel

After yet another disappointing quarter, I think much of this move is just investors throwing in the towel.

You can't really blame them; it's not easy being an investor in a company that continually disappoints the market.

But it goes even deeper than that. Bombardier doesn't just come up short of analyst or investor expectations. It comes up short of its own expectations. And we're not talking small misses here. These are massive.

If management can't even get earnings guidance even close to right, why should investors have any confidence at all in their ability to manage the company? Especially when it happens so consistently.

The only good news from this kind of sentiment is it's likely the stock is oversold at this point, and there could be a short-term buying opportunity.

What about the turnaround plan?

Bombardier is in the middle of a plan that will see it sell some of its non-core assets and use the proceeds in an attempt to finally get the balance sheet under control.

At least this is going somewhat well. The company has US\$2.6 billion in cash today and should have an additional US\$1.1 billion around the middle of the year when two asset sales close. Not throwing any additional cash at the Airbus partnership will also help keep the balance sheet in fair shape.

One thing the company needs to do to help get the balance sheet under control is post consistent positive free cash flow — a goal that has proven elusive.

Personally, I don't think [Bombardier](#) will ever go bankrupt. If the company's balance sheet continues to deteriorate, it'll simply get a bailout from either the Quebec or federal government. The company is simply too important from a political perspective.

The bottom line

I would never touch Bombardier's common shares, although the [preferred shares](#) might be more interesting. I want to own excellent companies, and it's pretty obvious Bombardier is the exact opposite of that.

The stock could very well recover from this downturn, making it an interesting short-term trade today. But that's about it. Betting on it over the long term appears to be a sucker's game.

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