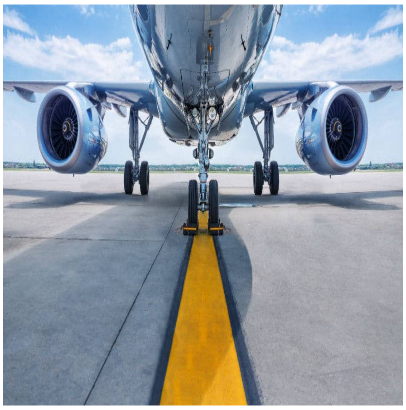


TSX Stock Sell-off: It’s Time to Buy This Market Mover

Description

Earnings are a great time to pick up stock for cheap. Stocks can quickly become undervalued when investors overreact to a slight earnings miss from company guidance. It is at these moments that you want to increase positions in top market movers on the Toronto Stock Exchange (TSX) in Canada.

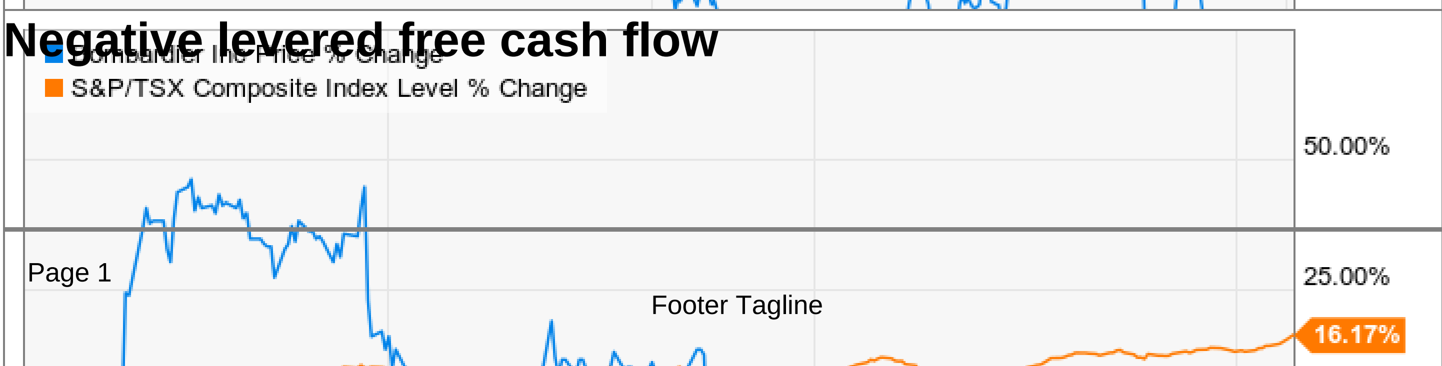
Bombardier (TSX:BBD.B) is at the top of the list of market movers at the start of 2020. On Thursday, the stock plummeted from $1.80 to $1.14 per share — a nearly 37% loss in value in one day. Shareholders reacted negatively to a slight sales and earnings miss from guidance. The good news is that the company is promising an aggressive deleveraging strategy.

At the beginning of 2015, Bombardier acquired more debt on its balance sheet, subsequently reducing the company’s net worth. Shareholders accelerated stock selloffs in response, and Bombardier’s net worth entered negative territory for the second half of 2015. The stock regained some of its value during 2019 — only to fall again after leadership failed to materialize promises of a turnaround.

Break-even profit margins

The profit margin on Bombardier’s business activities is a negative 0.08%, which is about zero — or break even. After paying debtholders, there aren’t any profits left over for shareholders. Thus, shareholders have some serious complaints about the level of debt the company has maintained for the past few years.

Until management shows some progress in deleveraging, the price of shares in the stock will suffer. Luckily for you, this means a buying opportunity. The company has intentions to deleverage, according to recent management statements, and will make some progress toward this goal over the next year. If you buy now, you can capture some of the price appreciation in the stock as capital gains in your Tax-Free Savings Account (TFSA).



Negative levered free cash flow

No other statistic demonstrates Bombardier's troubles more than the negative levered free cash flow. With a levered free cash flow at a negative $493.88 million, the company has no way of giving stockholders returns in the form of dividends or share repurchases anytime in the near future. Understanding this, investors aren't buying — they are selling the shares of the stock and driving down the price.

If Bombardier's management wants to improve the stock's price performance on the TSX, they need to deleverage and bring the levered free cash flow back into positive territory. As long as shareholders understand that the company is distributing profits in the form of interest payments to bondholders, investors will continue the stock sell-off.

Management commits to aggressive deleveraging in earnings announcement

In the fourth-quarter and full-year 2019 financial results, Bombardier announced that the company is "actively pursuing strategic options to accelerate deleveraging." This is good news for current shareholders and savvy Canadian investors looking for new buying opportunities in the stock market.

Although the debt repayments aren't guaranteed, the company sounds pretty committed to the goal. At only $1.23 per share, you can buy a 100-share position in Bombardier for only $123. If the company fails to deleverage, you don't have too much invested to lose. On the other hand, if the company succeeds in its goals and regains shareholder confidence, you could potentially triple your initial investment this year.

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Date
2025/07/02

Date Created
2020/01/19
Author
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