TFSA Investors: Is Bombardier (TSX:BBD.B) Stock Now Oversold?

Description

The share price of **Bombardier** (TSX:BBD.B) dropped more than 35% to $1.12 last week, the lowest close since early 2016 and well off the 2018 high of $5.40 per share.

Let's take a look at the reasons for the latest plunge and try to determine whether Bombardier deserves to be a contrarian pick right now for a Tax-Free Savings Account (TFSA) portfolio.

Bad news

On January 16, Bombardier hammered investors with another warning, triggering a massive sell-off in the stock. The share price closed the week at its worst level in four years and investors are wondering whether another dip below the $1 point is on the way.

Bombardier said that its Q4 2019 results would be worse than anticipated, representing the second major downward revision in the past year. Last spring Bombardier warned that its 2019 revenue would be US$1 billion lower than expected due to troubles with its rail division and delays on plane deliveries.

It appears the situation didn't improve through the second half of the year, as Bombardier now says its Q4 2019 sales will be reported at US$4.2 billion, which is well below analyst estimates.

The company also said that it's rethinking its involvement in the A220 partnership with **Airbus**. Bombardier sold a 50.1% stake in the former CSeries to Airbus as a way to offload the remaining development costs of the troubled jets while still retaining a chance to benefit from expected sales growth.

The A220 orders haven't rolled in as planned since the close of the transaction in July 2018.

Debt issues

Bombardier finished Q3 2019 with US$9.3 billion in debt. That's about CAD $12 billion, which is a lot for a firm that currently has a market capitalization of about $3 billion.

The company has US$1.47 billion in debt coming due in 2021 and another US$1.7 billion due in 2022. Last year it managed to find buyers for new debt to replace notes due in 2020.

Given the worsening situation at the company and recent downgrades on the debt, it might prove difficult for Bombardier to find investors willing to buy new debt at a reasonable rate.

Bombardier had US$2.6 billion in cash as of December 31, 2019 and will receive another US$1.1 billion in 2020 from assets sales that have already been announced. Cash burn is an issue, and while the liquidity position should be adequate through the first part of 2021, Bombardier doesn't have much flexibility.

Cash options

Bombardier could sell its stake in the A220 program. Pundits are also speculating on a sale of the rail division or the business jets group. The company has already sold its commercial aircraft operations, so it's running out of assets to monetize.

A total sale of Bombardier to a foreign competitor would likely be blocked by Quebec and the province's pension fund.

Risks

The rail group continues to struggle, and negative media press isn't helping Bombardier as it tries to secure new orders.

New York blasted Bombardier for selling it faulty subway cars when the city announced in early January that it would remove nearly 300 newly delivered units from service due to safety concerns. Bombardier fell three years behind schedule on the US$600 million contract.

This is in addition to the public battle the company has had with the Toronto Transit Commission on its order for new Bombardier streetcars.

Should you buy?

Contrarian investors who are long-term Bombardier bulls might want to take a small position on the hopes of turning a quick profit on a bounce.

At this point, I would search for other opportunities. The debt situation is a major concern and Bombardier is running out of funding options.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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Date
2025/07/05
Date Created
2020/01/20
Author
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