Will Bombardier (TSX:BBD.B) Stock Reach $1 After a 43% Decline in 2020?

Description

Shares of Canada-based **Bombardier** (TSX:BBD.B) have had a disastrous start to 2020. The stock is already down by a significant 43% this year after the company released its preliminary fourth-quarter and full-year 2019 results last week.

In the fourth quarter, Bombardier reported sales of $4.2 billion compared to analyst revenue estimates of $4.6 billion. In Q4, Bombardier's Transportation business segment sales stood at $1.8 billion, which was lower than the analyst forecast of $2.21 billion.

Its press release stated, "The company now expects lower than previously guided financial performance, mainly as a result of actions taken to resolve challenging rail projects, the timing of milestone payments and new orders at Transportation, and the delivery of four Global 7500 aircraft slipping into the first quarter of 2020."

In the fourth quarter of 2019, Bombardier has an reported adjusted EBIT loss at $230 million, which includes a charge of $350 million related to certain projects in the United Kingdom and increased production and manufacturing costs for projects in Germany. Bombardier also cut its free cash flow by $650 million for the December quarter due to the timing of cash inflows from "milestone payments on large Transportation projects."

This announcement was not well received by investors. Bombardier stock had its worst day ever on January 16, 2020, when the stock fell 32% in a single trading session. The stock fell by a further 8.2% on Friday, January 17, 2020, after S&P and Fitch lowered their ratings on the company.

According to a *Reuters* report, the credit rating agencies cut their outlook on Bombardier from stable to negative. S&P and Fitch are concerned over Bombardier's weak outlook, falling profit margins, and cash flow. Negative operating cash flow is disconcerting, as Bombardier has over $10 billion in debt.

Is there hope for investors?

Bombardier is struggling with sluggish sales. The aircraft manufacturer has seen sales decline from

$16.34 billion in 2016 to $15.8 billion in 2019. The stock is valued at $2.71 billion in terms of market cap and has an enterprise value of $12.6 billion. Its price-to-sales ratio stands at a measly 0.17. So, does the low valuation multiples of Bombardier make it an attractive buy? Not really.

Last year, investors rejoiced after Bombardier announced an agreement to sell off its aerostructure business for $500 million. The company had then stated that the sale would allow it to focus on its core business segments and growth pillars.

Just when the company seems to be on the cusp of a turnaround, investors suffer another jolt, which, more often than not, wipes out significant portfolio value. Bombardier had to be bailed out by the Quebec government a few years back and was also involved in a lawsuit with Mitsubishi.

This month, the New York Metropolitan Transportation Authority confirmed that it will recall 300 subway cars supplied by Bombardier due to problematic doors. The government body claimed that it would hold Bombardier accountable, raising serious questions about product quality.

Bombardier has partnered with Airbus, and the joint venture is in need of cash investments, something the former cannot afford. At the end of the September quarter, Bombardier reported a cash balance of $2.46 billion.

Bombardier now aims to reduce its debt burden and de-lever its balance sheet. It is pursuing alternatives to accelerate debt payments, which includes selling off its crummy businesses. While Bombardier stock has lost significant value, investors would be advised to look for companies with better fundamentals and growth prospects.

This company has time and again disappointed stakeholders, and the stock looks more like a value trap than a contrarian buy. The stock is down 80% since July 2018.

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