



Why Bombardier (TSX:BBD.B) Stock Price Fell 36.3% in January

Description

News out of **Bombardier Inc.** ([TSX:BBD.B](#)) in January has all but killed any real hope that investors may have been holding on to for a rally in Bombardier stock price. Last month highlighted once again the company's liquidity issues, and the company's long-time struggle with its three legacy rail projects.

Let's take a closer look at the reasons why Bombardier stock price fell a shocking 36.3% in January.

Bombardier pre-releases news of a lower than expected Q4

Fourth-quarter consolidated free cash flow is now expected to come in at approximately \$1 billion, \$650 million lower than expected. As per the company, "This is largely due to the timing of cash inflows from milestone payments on large transportation projects, and the later-than-anticipated closing of certain orders."

The Bombardier Transportation division will see new costs and capital expenditures to address legacy issues that have plagued the division. This will result in \$250 million to \$300 million in new costs and capital expenditures, all with the aim of transforming the business.

The division's free cash flow will be negative \$500 million versus prior expectations of around break-even. Persistent structural problems and the company's inability to get itself back on track remain concerning.

Bombardier reviewing strategic alternatives

The continued disappointments and charges and missed expectations are made worse by [the company's heavily indebted capital structure](#). While it's true that Bombardier's capital structure problem dates back a long time now, management has now realized that they will need an external force to save it from imploding.

While this is a new realization on the part of management, it seems that Bombardier stock price has

been reflecting this dire situation for some time now.

Bombardier has gone from a stock market darling in the late nineties to a perpetual dog, as persistent and non-relenting disappointments have caused the stock to crash and burn, tumbling from highs of more than \$25 in its heyday to under \$1.50 today.

This has been a steep and shocking fall, and while the company has at least survived, it is a mere speck of what it once was, destroying massive amounts of shareholder value in the process.

So which strategic alternatives is the company exploring? With long-term debt of more than \$9 billion and a debt to market capitalization ratio of 200%, Bombardier is feeling the pressure.

The commercial aircraft business has already been sold, and other transactions have been made to alleviate the pressure. Yet, here they are, with the same problem.

Possibilities for the company include a break-up and sale of all or part of the company. The business jet business is performing better than the transportation business, but what action the company will take remains uncertain.

The only thing that seems certain is that something needs to be done to raise money and get Bombardier out of the high-debt, high-risk situation it is in.

Foolish bottom line

After such a huge drop in Bombardier stock price, one might be tempted to go in and buy. In my view, however, this isn't the right course of action, as [the stock remains a very speculative proposition](#).

In closing, I would like to remind foolish investors of our belief in holding great businesses for the long-term. While this belief remains intact, we are also aware that sometimes, short-term stock price movements create opportunities to create wealth.

Blending this long-term focus with a keen eye for short-term stock mispricings, we can use both strategies in harmony, and our quest for financial freedom can be fulfilled. In the case of Shopify stock, taking some money off the table at this point might be a good move.

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