Buy, Hold, or Sell? See Bombardier's (TSX:BBD.B) Stock Price Target

Description

If your stock portfolio contains shares in **Bombardier** (TSX:BBD.B), your finger may be hovering over the "sell" button. The aerospace stock leapt by more than 12% on the news that **Alstom** was in the preliminary stages of buying Bombardier's train business. The news is clearly a welcome one, given Bombardier's performance on the TSX over Family Day. But what does it mean for current or would-be shareholders?

Bombardier shareholders have a median "sell" target of around $2.20, and the stock isn't there yet. On the contrary, there could be farther for the knife to fall, and the high target price of around $4 a share seems unattainable any time soon. Currently trading at around $1.65 at the time of writing, the stock is a "hold." The short answer: Bombardier could improve in the long term, so don't sell just yet.

With a mountain of debt to service, the sale of its rail business will no doubt come as some relief to long-term shareholders who have watched their stake in the Canadian aviator depreciate over recent years. For fence-sitters, the $7 billion deal and near-ground-floor entry price could mean that this name is almost worth buying.

With heavy streamlining underway, Bombardier could see improvement ahead for 2020. However, even recovering to its 52-week high of $3, achieved almost a year ago, looks unlikely given the strongly negative trend over the last few months. Having lost 34% since this time in 2019, Bombardier is still nosediving, despite this week's blip on the radar.

But should would-be investors pick up the famous aviator on weakness or leave it on the runway? Once the post-divestiture rally has died down, TSX investors on the lookout for aerospace stocks will have to decide whether to snap up shares at their low target value of $1.40. At this point, Bombardier should technically have bottomed out, and with a stripped-back balance sheet, the stock may become attractive.

Having shed a third of its value in a year, investors may finally have a chance to buy Bombardier stock closer to what it's arguably worth. Combine this attractive valuation with a stripped-back business model, and Canadian investors could have a workable company to buy and hold. Indeed, Bombardier stock may suit a long-term TSX portfolio currently in need of some aerospace exposure.

By streamlining its operations and focusing on business aviation, Bombardier is scratching an itch that has been bothering aerospace investors. Its rail business has long been seen as incongruous, while its commercial aviation segment was viewed as overly high maintenance. Going forwards, the general long-term, low-risk capital gains investor could have a value play for a more muscular business.

The bottom line

Bombardier shareholders may have been wondering whether the time has come to cash in their chips after the news over the long weekend that the transportation giant was selling its rail segment. With an improved balance sheet and a focus on business aviation, there is the possibility that Bombardier could recover in the long term. Meanwhile, new investors have the chance to buy an improving stock on weakness.

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