



Bombardier (TSX:BBD.B) Stock Price: Is Now the Right Time to Buy?

Description

Bombardier ([TSX:BBD.B](#)) just released news that will see the company change considerably in the next year.

Investors with a [contrarian](#) style are now wondering if the share price of the troubled plane and train maker is preparing to take off, or drifting into new headwinds.

Asset sales

Bombardier is selling assets to raise capital as it battles with a mountain of debt and ongoing cash burn. The turnaround program hasn't panned out as planned.

Revenue warnings caused by delays on rail and plane deliveries forced the company to cut revenue guidance by US\$1 billion last spring. Things didn't improve much through the rest of 2019 and the liquidation of business units that began in 2018 is picking up steam.

Bombardier sold a 50.1% interest of its CSeries program to **Airbus** in the summer of 2018. The market liked the deal at the time as investors saw the move as an opportunity to offload heavy production costs while still being able to benefit from a ramp up in sales.

Shortly after the deal closed, Bombardier's stock topped \$5.40 per share, compared to less than \$1 in early 2016. Unfortunately, sales of the jets, renamed A220, didn't take off as expected under the Airbus wing. In the latest earnings announcement covering Q4 2019, Bombardier said it's selling the rest of the A220 stake to Airbus.

This completes the exit from the commercial jet segment. Bombardier already sold its Dash 8 turboprop unit and its CRJ regional jet group.

Debt is still an issue, however. Bombardier finished 2019 with long-term debt of US\$9.3 billion. Roughly US\$4.4 billion is due in the next three years.

This might be why the company also just announced the sale of its rail division to **Alstom** for US\$8.2 billion. Bombardier says it will received net proceeds of US\$4.2-4.5 billion.

Once the sale of the rail unit is complete, Bombardier will be a pure-play maker of business jets.

Should you buy the stock?

At the time of writing, Bombardier trades for \$1.28 per share compared to a high of \$1.80 three days ago.

The market isn't convinced Bombardier is out of the woods. The sale of the rail division still has to clear regulatory hurdles. Last year Alstom and **Siemens** tried to merge their rail divisions, but the marriage was blocked on competition concerns.

The European players are trying to scale up to compete with Chinese companies that are aggressively targeting rail deals worldwide. Bombardier lost contracts in Boston and Chicago in recent years that went to Chinese firms.

Relying solely on business jet sales arguably adds risk for Bombardier. Its train and commercial jet programs faced challenges, but they provided revenue diversification.

The business jet market tends to soar when economic times are good, but can hit headwinds when corporate budgets get tight and billionaires are being hit by corrections in equity markets.

The global economy has been on a strong run since the great recession, albeit cracks are starting to form. The trade battle between the United States and China had already fuelled discussions of a potential global recession, and the emergence of the coronavirus is adding more disruption to supply chains and will likely further inhibit corporate investment.

Bombardier is going to be a much smaller company and might thrive as a business jet specialist. However, I would wait for the completion of the sale of the rail unit before buying the shares.

Other [cheap](#) stocks might be a better bet right now.

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