



Why Is Bombardier (TSX:BBD.B) Stock Down 36% in 2020?

Description

Shares of Canada-based aviation giant **Bombardier** ([TSX:BBD.B](#)) have slumped over 36% since the start of 2020. The stock is currently trading at \$1.25, which is 59% below its 52-week high. So, what has impacted company shares in 2020?

Company sells transportation division

In the last week ended on February 21, 2020, Bombardier stock fell over 24% after the company announced its intent to accelerate the sale of its transportation division to Alstom. It now wants to solely focus on its aviation business.

According to the agreement, Bombardier and la Caisse will sell their interests in Bombardier Transportation to Alstom on the basis of an EV (enterprise value) of US\$8.2 billion. Total proceeds after accounting for debt-like items as well as transferred liabilities will be about \$6.4 billion.

La Caisse has an equity position between \$2.1 billion and \$2.3 billion, which means Bombardier will receive anywhere between \$4.2 billion and \$4.5 billion. Bombardier will use the proceeds of this sale to reduce debt and redefine its capital structure. In 2019, the transportation business accounted for 52.5% of total sales.

Bombardier exits from Airbus partnership

On February 12, Bombardier transferred shares part of the A220 program to Airbus and the government of Quebec. Bombardier will receive \$591 million from Airbus, net of adjustments as part of the deal. This exit will help Bombardier to strengthen its balance sheet and enable Airbus to increase its presence and gain traction in Quebec.

Bombardier CEO Alain Bellemare stated, "This transaction supports our efforts to address our capital structure and completes our strategic exit from commercial aerospace. We are incredibly proud of the many achievements and tremendous impact Bombardier had on the commercial aviation industry."

He added, "We are equally proud of the responsible way in which we have exited commercial aerospace, preserving jobs and reinforcing the aerospace cluster in Québec and Canada. We are confident that the A220 program will enjoy a long and successful run under Airbus' and the Government of Québec's stewardship."

Poor preliminary results

Shares of Bombardier fell close to 32% on January 16, 2020, after it reported preliminary fourth-quarter estimates that were [significantly below consensus estimates](#). Bombardier had then estimated revenue of \$4.2 billion, below analyst estimates of \$4.6 billion.

The Transportation business revenue was forecast at \$1.8 billion below estimates of \$2.21 billion.

What's next for investors?

Earlier this month, [I had stated that](#) Bombardier's partnership with Airbus is under threat, as the former was in severe need of capital to pay back debt. The company had no option but to terminate its contract with Airbus.

Bombardier has been grappling with high debt levels for a while. In late 2019, it sold off the aerostructure business for \$500 million to reduce debt and de-lever its balance sheet. It continues to focus on asset sales and will need to increase profit margins as well as free cash flow to get investors interested.

Bombardier has had a disastrous start to 2020. However, analysts still remain bullish on the stock. Out of the 20 analysts tracking Bombardier, 12 have recommended a "buy," while seven recommend a "hold," and one recommends a "sell". They have a 12-month average target price of \$1.65, which is 32% above the current trading price.

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