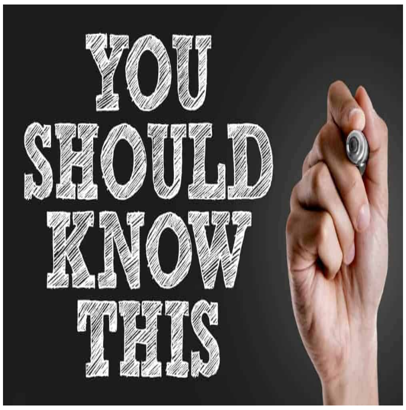

Coronavirus Could Be the Final Nail in the Coffin for Bombardier's (TSX:BBD.B) Stock

Description

Bombardier Inc (TSX:BBD.B) stock has been having a rough go of it lately. As of this writing, it had fallen 45% since February 19–compared to 34% for the **TSX**. With the extreme coronavirus response measures that have been rolled out recently, it's understandable that stocks would take a beating. Bombardier, however, has been battered more than most.

While it's normal to talk about buying the dip in times like this, that's probably not the best approach to Bombardier stock. As you're about to see, the ongoing coronavirus panic could legitimately threaten the company's operations.

With business travel taking a beating due to travel restrictions, Bombardier could lose orders and suffer major revenue declines. To understand why that would be so devastating to the business, we first need to look at its history.

A business in decline

Most Canadians will be familiar with Bombardier's recent woes. Its massive layoffs and business unit spinoffs have been well publicized, as have its balance sheet struggles. However, Bombardier's issues go back further than most people realize.

A quick glance at Bombardier's stock chart shows that it peaked in September 2000 at a price of about $27. Shortly afterward, it began a free-fall that has continued to the present day.

The company's first questionable asset divestiture was selling Bombardier Recreational Products to Bain Capital for $1.2 billion. The sale came as Bombardier reported a $1 billion net loss and a 15% revenue drop-off for the final quarter of 2003.

While it's normal for businesses to sell off units, Bombardier's sale to Bain Capital appears to have been motivated by a desire to offset staggering losses.

The sale also deprived Bombardier of a business unit that has gone on to be successful under new management: In the five years spanning 2015 to 2019, BRP grew its revenue by 10% CAGR and didn't have a single losing year.

The loss of BRP was just the start of Bombardier's woes. The real one-two punch came in the form of the C Series jet. Initially projected to cost $2.1 billion, it wound up costing $5.4 billion and loading up the company's balance sheet with debt.

Bombardier also struggled to find buyers for the jet, which led to it being sold to **Airbus.** That was the start of a long series of asset divestures that continued until last year.

Business jets: the only business unit remaining

Having sold off recreational products, much of its aviation, and trains, business aviation is the only major business unit Bombardier has left. Unfortunately, depending on how the coronavirus threat plays out, that could be in danger too. Coronavirus is cancelling business travel left and right, with many companies opting out of non-essential travel entirely.

Just recently, **Starbucks** turned its annual meeting into a virtual event, and **Nestle** told its employees to limit business travel.

These are but two examples out of hundreds. If coronavirus remains a going concern, then we'll almost certainly see fewer business jet orders, which won't be good news for Bombardier's last remaining business. For these and other reasons, investors would do well to avoid Bombardier stock.

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