Market Crash: Why Did Bombardier (TSX:BBD.B) Stock Drop 67%?

Description

Bombardier, Inc. (TSX:BBD.B) stock is no stranger to volatility — and the recent market crash is no exception.

During the 2008 financial crisis, Bombardier shares fell by 70%. Once the market bottomed, the stock *doubled* in price. This year, the stock has fallen by nearly 70% again. Is this another buying opportunity?

This market crash is hard

Bombardier has reorganized its business segments countless times over the last few decades. Constant reorganizations are the sign of a struggling company. While this pivot was no different, it came with an unfortunate twist.

In February, Bombardier commenced an all-out transformation that would see nearly the entire company focused on business aviation. Here's how the transition will work.

Alstom is acquiring Bombardier Transportation for an enterprise value of $8.2 billion. After pensions and other deal-related costs are included, Bombardier will be infused with roughly $6.5 billion in capital.

After paying off roughly $2 billion in debt, the company will be left with excess cash of around $4.5 billion. Its pro-forma debt, meanwhile, will be just $2.5 billion.

In total, selling Bombardier Transportation will leave the company extremely reliant on the business aircraft market. This was great news, at least on paper.

Business aircraft has been one of the more profitable segments for Bombardier in recent years thanks to its best-in-class aircraft portfolio, which includes Learjet, Challenger, and Global brands.

This segment alone has a $14.4 billion backlog. Bombardier also has one of the largest installed bases in the world, with more than 4,800 aircraft in service, giving it scale and reach for after-market services.

Then the coronavirus market crash hit. Air traffic fell off a cliff. Orders for new planes have gone radio silent. Iconic aircraft manufacturers like **Boeing Co** were swept to the verge of bankruptcy. Direct government assistance is nearly guaranteed.

Bombardier is a lottery ticket

A bet on Bombardier today is a bet on business aviation. That segment of the market will be more stable than the commercial market. It will likely normalize faster as well. But the true impact is still being felt. It could be *years* before conditions return to baseline, which is why Bombardier stock plunged so rapidly.

Should you bet on dirt-cheap shares? Sure, just as long as you know that what you're buying essentially equates to a lottery ticket.

Post-sale of its transportation business, Bombardier is in a significantly improved financial position. For the first time in years, its debt load is manageable, but the market crash could upend the progress.

Last year, the company generated *negative* free cash flow of $1.2 billion — that's more than the entire market cap today! Offloading the transportation segment will certainly help, but it still leaves the company with $2.5 billion in debt, more than twice the current equity value.

Bombardier is still very much a company on the edge. If Boeing is feeling intense pain, despite its significantly healthier balance sheet and credit rating, Bombardier's future is bleak.

Direct government assistance should be expected. But what will that look like? Will the Canadian government take an equity stake in the business? Or will it simply offer low cost, forgivable loans? Will assistance be reliant on employee retention or will Bombardier have the flexibility to lower costs and streamline its operations?

All of these questions have answers with near-zero visibility. Bombardier stock is dirt-cheap, but then, so is a lottery ticket.

If you want to go bargain shopping, take a look at the myriad of other stocks that have been crushed as a result of the market crash.

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Date
2025/08/18
Date Created
2020/04/02
Author
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