Market Crash 2020: Will Bombardier (TSX:BBD.B) Survive?

Description

The last few years haven't been great for **Bombardier** (TSX:BBD.B), and that was before COVID-19 wrecked the economy.

The company placed all its eggs in the CSeries basket, confident its revolutionary new plane would rescue it from all its financial woes. The CSeries did sell pretty well, but Bombardier was forced to sell the entire program to aviation giant Airbus at a discounted price.

Another big issue that has plagued Bombardier for years has been its bloated balance sheet. Even after embarking on a program that saw many non-core assets sold in 2019, Bombardier's debt is still quite high. At the end of 2019, the company had US$9.3 billion in long-term debt, although that was offset by some US$3 billion in cash.

Finally, 2019 wasn't a great year for Bombardier's transportation business. The train division has traditionally been Bombardier's crown jewel, but it suffered from bloated costs, disappointing earnings, and losing sales to competitors. Plenty of stimulus money is sloshing around today, but cities are looking to simply keep things open. Nobody has immediate plans to expand public rail networks or subways.

All this combined to put big pressure on Bombardier's share price from 2014 to 2019. And then COVID-19 decimated the economy in 2020, taking the stock down another level. As I type this, shares trade at just $0.40 each.

Is bankruptcy in the cards, or will the company find a way out of this mess? Let's take a closer look.

Is Bombardier doomed?

Perhaps the biggest issue for investors who are looking to speculate on dirt-cheap Bombardier shares is, there's a really compelling argument the company would be better off in bankruptcy.

Look at it this way: in 2019, Bombardier paid US$670 million in interest. Add in preferred share dividends, and the number approaches US$700 million. That's a lot of money for any company, especially one like Bombardier that is consistently non-profitable.

Not all of Bombardier's debt would be discharged in a bankruptcy, since some of it is secured by real estate. And remember, the company does have a healthy cash balance and potentially more coming in the door, as it closes asset sales that were first agreed to last year. It looks to be healthy, at least for now. But there's also little doubt a leaner balance sheet would help.

It's never a good sign when investors start to speculate a company would be better off in bankruptcy. If the action makes sense, then it's usually only a matter of time.

How about a short-term flip?

While I'd never recommend investors buy a stock for the short term, there could very well be some upside potential for Bombardier shares over the near term.

Shares are down approximately 70% over the last two months, falling from a peak of more than $1.60 each on the Toronto Stock Exchange back on February 13. With that kind of bearish sentiment, it's likely that any good news will send shares higher over the short term.

There's also upside potential from short covering. Many investors are betting on Bombardier's bankruptcy by selling shares short. To complete the trade, they'll need to buy back in to cover their positions. This may cause temporary price hikes as these short-sellers drive the stock higher.

Still, betting on such things happening is risky business. I would recommend investors stay far away from that type of speculation.

The bottom line

Nobody knows for sure that Bombardier will go bankrupt, but it sure looks to me like that's the only logical conclusion.

Even with the company potentially avoiding that fate, Bombardier is still a sell. There are still too many excellent stocks for investors to worry about weaker companies like Bombardier. Choose one of them rather than speculating on this investment.

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nelsonpsmith