Why Did Bombardier (TSX:BBD.B) Stock Plummet 76%?

Description

Bombardier, Inc. (TSX:BBD.B) is a volatile stock. It's made investors millions, but it has also proven capable of erasing those gains almost overnight.

In 2016, the stock was priced at $1 per share. In 2018, shares surpassed the $5 mark. A $1,000 investment would have become $5,000 in just two years.

But then the coronavirus pandemic hit. Since February, shares have sunk by 76%. They're now priced at just $0.54, their lowest level since 1995!

Time and time again, Bombardier stock has come roaring back from its lows. Is now the time to make a bet?

Know what you're buying

Bombardier is the definition of an industrials company, similar to **General Electric**. For years, it designed and built big, heavy things like railroad cars and airplanes. You've likely benefited from the company's products before, even if you didn't know it.

Because its business is capital-intensive, revenue often comes in waves. The company could experience very little sales traction for months, only to receive several multi-billion orders in a single week. This lumpiness is a big reason why Bombardier stock has been so volatile over the years.

In February, the company made a major strategic shift, selling its rail division to completely focus on business aviation.

French industrial giant Alstom purchased the rail assets for $4.5 billion, with much of the proceeds going to reduce Bombardier's $9 billion in debt. The remaining assets include the Global, Challenger, and Learjet business jet families, plus a high-margin aftermarket division that supports the nearly 5,000 Bombardier planes already in operation.

“Going forward, we will focus all our capital, energy and resources on accelerating growth and driving margin expansion in our market-leading $7 billion business aircraft franchise,” said CEO Alain Bellemare at the time. “With a stronger balance sheet after the completion of this transaction, an industry-leading portfolio of products, a strong backlog, and a rapidly growing aftermarket business, we will compete in this market from a position of strength.”

Bombardier blew it

In retrospect, we know that the company’s timing was terrible. Focusing completely on business aviation right before a global pandemic was one of the worst strategic moves in recent memory. Unsurprisingly, former CEO Alain Bellemare left the company in March, with Hydro-Quebec CEO Eric Marte taking the reins.

Bombardier now has a valuation of just over $1 billion, and long-term debt stands at more than $10 billion. Even if the company use all of its cash reserves, including the sale proceeds from the rail segment, to pay down its debt load, these liabilities would still outweigh the equity value by more than 300%. And that’s not a likely scenario given that the business is losing more money than ever in the current environment.

The coronavirus pandemic has created a huge opportunity to buy low-priced stocks. Despite its shrinking valuation, Bombardier isn’t a buy at *any* price. Its core business won’t see a return to baseline for months, if not years. Elevated debt levels could force the entire company into bankruptcy as early as this year.

Promising cheap stocks are now plentiful. Bombardier isn’t one of them.

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