



TSX Composite Index Removes Bombardier (TSX:BBD.B) – What Should You Do?

Description

Bombardier ([TSX:BBD.B](#)), a leading manufacturer of planes and trains, is now on the brink of collapse. If you thought **Air Canada** was the worst hit by the COVID-19 pandemic, think again. Air Canada's supplier Bombardier is on teetering on the verge of disaster as its customers — the airlines, railways, corporates, and governments — are cutting costs to stay afloat.

Bombardier was not doing well even before the pandemic, posting losses in four of the last five years. In this period, it initiated the sale of its rail transportation and commercial aircraft operations. What's left of Bombardier is its business-jet segment, and it is facing a significant blow from the pandemic-driven economic downturn.

Bombardier stock lost more than 70% of its valuation this year, worse than Air Canada, which lost 50% of its valuation. The former stock has been trading below \$1 since March. Even after three months, the stock failed to recover as investors were reluctant to buy shares of a loss-making company with a debt load of \$10 billion.

Because of its weak performance, [Standard & Poor's has removed the stock](#) from its **TSX Composite Index** and **TSX 60 Index**.

Why is Bombardier out of the TSX Composite Index?

The **TSX Composite Index** tracks the top 250 stocks that represent around 70% of the market capitalization on the **Toronto Stock Exchange**. The TSX 60 Index tracks the 60 large-cap stocks listed on the Toronto Stock Exchange.

The two market capitalization-weighted indices include companies with the highest marketcapitalization and trading volumes. An equity share should at least be trading at an average price of \$1for over a quarter and in the last 10 trading days of the quarter in order to be eligible for the TSXComposite Index.

Even if the stock meets the above requirement, it should be among the top 250 stocks by performance. The **S&P Composite Index** reviews these indices quarterly based on the updated stock performance.

Bombardier stock fell 73% to \$0.45 in March after the coronavirus outbreak, underperforming the TSX Composite Index, which fell 34%. The index partially recovered from the market sell-off, rising 30% in the last three months.

However, Bombardier stock rose just 15% in the previous three months and is still trading below \$1. It fell down the performance ranks and will therefore be removed from the above two indices.

It will follow 14 other stocks, including **Chorus Aviation** and such energy stocks as **Enerflex** and **Baytex Energy**, which are being excluded from the TSX Composite Index.

What will happen to Bombardier stocks next week?

The TSX Composite Index and the TSX 60 measure the health of the Canadian stock market and economy. They are used as a benchmark to measure the relative performances of individual stocks.

Many index funds replicate the changes in these indices to safeguard their investments against weak-performing stocks.

Bombardier will see a significant sell-off by index funds in the next few days. A sell-off by institutions will significantly reduce its stock price. Several retail investors might also sell out of panic. Value investors are unlikely to buy the stock because of its weak fundamentals.

One segment that might be interested in purchasing the stock could be speculators who want to speculate on Bombardier's 2020 Annual Meeting of Shareholders scheduled for June 18.

The exclusion from the TSX Index does not mean that Bombardier stock is not liquid, however. It will still be an active stock with high trading volume. If the stock recovers in the future, the S&P will add it back to the TSX index.

What should you do?

If you own a Bombardier stock, don't rush to sell it this week. But do sell it after a few days when trading normalizes, as it is not a stock you want to hold. If you don't own a Bombardier stock, stay away from it as the risk is too high.

Bombardier has paid out a generous \$17.5 million in severance pay to its outgoing CEO Alain Bellemare while reporting US\$1.6 billion in losses. It is slashing jobs and spinning off businesses to pay off its massive debt.

If the company fails to manage its debt, it [could file for bankruptcy](#). Buying Bombardier's equity stock is

like funding its losses.

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