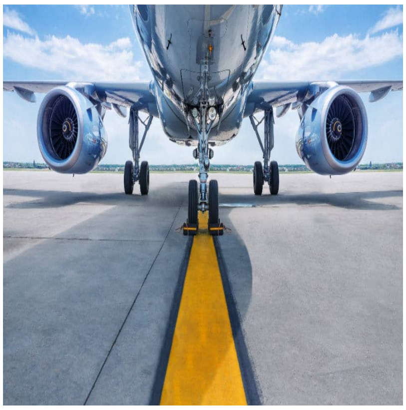

Bombardier Inc. (TSX:BBD.B): Sorry Folks, It's Going to Go Bankrupt

Description

Many speculators are taking a long look at **Bombardier** (TSX:BBD.B) stock, likely because they're enticed by the low price.

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As I type this, Bombardier shares are down approximately 75% thus far in 2020. After starting the year at nearly $2, the stock has been hit by several factors. Shares currently trade hands at just under $0.50 each.

Bombardier was also recently kicked out of the TSX 60 Index. In fact, to add insult to injury, the company was booted from the **TSX Composite Index**. I can't remember a stock falling from grace as quickly as Bombardier has.

Although there are many bulls who believe the company is on the cusp of turning itself around, this analyst disagrees. Here's why a Bombardier bankruptcy is more likely than ever.

A massive debt load

Despite promising investors the company would tackle its debt for years now, Bombardier's balance sheet is still one of the worst I've ever seen.

At the end of its most recent quarter, long-term debt stood at US$9.3 billion. It has hovered around the US$9 billion level for years now despite promises that management would do what it takes to get it to a more reasonable value.

The company's equity, meanwhile, has a negative value on the balance sheet. Shares have a market cap of just a hair over $1 billion today, indicating that the market doesn't place much positive value on the equity either.

Analysts aren't bullish on 2020's earnings either, with an average projection of a US$0.35 per share loss, which will only weaken an already precarious balance sheet.

Bulls will argue Bombardier’s balance sheet could get a lot better as it sells off non-core assets. After all, it just closed the sale of its regional jet program to Mitsubishi, a sale that netted the company US$550 million. While that’s a nice start, it barely makes a dent in the total debt pile.

A weaker future

As Bombardier sells off its aerospace assets, it’ll be left with only the transportation division. Unfortunately, this part of the company is struggling today, a fate this analyst thinks will continue over the next few years.

COVID-19 has decimated the world economy. Governments have responded with various stimulus packages designed to help keep folks fed and to create jobs. While this is a necessary move, it’s one that is stretching already precarious public finances.

Remember, Bombardier’s transportation division primarily makes subway cars for various cities. Will these places be able to afford luxuries like expanding public transportation lines going forward?

Bombardier’s transportation division has also been losing ground to some of its rivals because the company has had a myriad of issues. The City of Toronto has feuded with Bombardier in the past over late deliveries. New York City also recently pulled some 300 Bombardier subway cars from service, citing safety concerns. This is not the kind of behaviour that will encourage repeat orders.

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No more help

Bombardier has always been able to lean on both its provincial government and the federal government for assistance. However, I don’t think any additional help is coming.

Even voters in Quebec are starting to turn against Bombardier despite the company being one of the province’s top employers. There’s little demand for any additional help for the company from taxpayers in Ontario or out west.

Besides, in a world where thousands of businesses are struggling, it really looks bad if a government helps out one while letting countless others fail.

The bottom line

Bombardier would really benefit from an organized bankruptcy process. The company could emerge a leaner organization while still protecting most of its workforce. It’s a winning scenario for everyone — except common shareholders.

The company may hold out for a few months longer, but the conclusion is inevitable. Bombardier will eventually need to restructure. It’s only a matter of time. Investors need to be incredibly cautious if they’re going to speculate on this stock.

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