



Bombardier (TSX:BBD.B) or Air Canada (TSX:AC): Which Stock Could Make You Rich?

Description

Shares of **Bombardier** ([TSX:BBD.B](#)) and **Air Canada** ([TSX:AC](#)) have turned out to be lousy investments. For instance, if you'd invested \$1,000 in Bombardier stock at the start of 2020, it would be worth a paltry \$251 now. Similarly, a \$1,000 investment in Air Canada stock would be worth \$347.

Both these stocks have witnessed immense selling pressure in the recent past, and there were good reasons for that. Both Bombardier and Air Canada are cash-strapped, have high debt, and are burning cash. Both the companies bear the risk of collapsing if things don't improve from here.

While Bombardier's financial performance was weak even in the pre-pandemic phase, Air Canada is one of the biggest casualties of the crisis. Investors should note that the airline company performed pretty well before the coronavirus grounded its planes and halted operations.

Shares of both these companies are available at a huge discount. However, the risk of losing money is also high. So, let's look more closely to decide which stock is a better buy to generate explosive growth.

Does Bombardier see shoots of green?

Yesterday, Bombardier reported better-than-expected cash usage for the second quarter. The company [said](#) that "its second-quarter cash usage was approximately \$500 million better than previously expected." Further, the company secured additional liquidity of \$1 billion, bringing the total to about \$3.4 billion.

While improved cash usage and higher liquidity have given Bombardier some breathing space, its problems aren't likely to abate soon. Bombardier needs to generate strong operating revenues to reduce debt and infuse liquidity to meet all of its contingencies.

Bombardier continues to deleverage its balance sheet through divestitures. However, it is exposing itself to a lot of risks by relying heavily on the business aviation segment. Though its order backlogs remained strong, it declined on a year-over-year basis. Besides, the coronavirus-led slowdown in

activities and travel restrictions are likely to weigh on the aviation production rate.

However, the outlook for the transportation segment remains positive, thanks to the strong backlog of \$33.1 billion (as of March 31).

Growth in passenger volumes could lift Air Canada

Travel restrictions and international border closures took a significant amount of toll on Air Canada. The company continues to burn cash and could report one of the worst quarterly performances in its history on July 31.

However, with the resumption of domestic flights, one could expect passenger volumes to improve from the bottom witnessed in late March and April. With the gradual improvement in traffic and cost-saving measures, Air Canada remains better placed than Bombardier and could be [the best contrarian bet to generate outsized gains](#).

Bottom line

In my previous article, I'd recommended that investors are better off buying both these cash-strapped companies. However, when it comes down to choosing between the two, Air Canada has a better chance to bounce back and make investors rich.

While Bombardier's strong order backlog could help it to survive the current crisis, it needs additional levers to come out of the gloom. But improving passenger volumes and cost-saving measures are likely to support the upside in Air Canada stock.

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