



Should You Buy Bombardier (TSX:BBD.B) Stock?

Description

Bombardier ([TSX:BBD.B](#)) started 2020 near \$2 per share.

The stock then suffered a severe meltdown due to the pandemic. A quick look at the share prices in recent years, however, indicates a troubling longer-term trend.

Trying to catch a falling knife is a dangerous game for investors. [Cheap stocks](#) often get a lot cheaper before they bounce. Some never recover and simply disappear or restructure under bankruptcy protection, effectively wiping out shareholder value. Others just get acquired at cents on the dollar. In a cash deal, shareholders simply book the loss and chalk it up as experience.

Once in a while, however, unloved stocks turn the corner and deliver huge gains for investors that had the courage to buy near the lows. Let's take a look at Bombardier to see if it deserves to be on your contrarian buy list today.

Bombardier stock plunge

Bombardier traded for more than \$25 per share in its glory days. Unfortunately, you have to follow the stock chart back 20 years to find the share price at that level. Aside from the odd head, Bombardier's stock price has effectively been in a steady decline for two decades.

The bulk of the problems in recent years came as a result of the botched CSeries jet program. Bombardier's new fuel-efficient jets should have been a major success. Unfortunately, the company encountered severe manufacturing delays that resulted in the program going billions of dollars over budget.

Early customers saw delivery schedules missed several times. Potential buyers simply stayed on the sidelines, waiting to see whether Bombardier could get the program back on track.

In the end, rising debt levels and massive cash burn forced management to shelve the [dividend](#) and seek financial assistance from Quebec and the province's pension plan.

The company then sold the CSeries to **Airbus**. Airbus renamed the jets as A220.

Bombardier asset sales

Bombardier also sold off its other commercial aircraft divisions in the past couple of years. These included the Dash 8 turboprop operations and the CRJ regional jets.

On the train side, Bombardier announced a deal in February to sell its rail division to **Alstom**. Assuming the deal goes through as agreed, Bombardier would get as much as \$4.5 billion in net proceeds.

This would leave Bombardier with just its business jet program. Management hoped strong sales of new models would right the ship. The pandemic now puts the future of the business jet market in question.

Bombardier debt risk

Bombardier has a market capitalization of roughly \$1 billion. The company entered 2020 with more than US\$9 billion in debt. Much of that is due in the next five years.

Business jet demand has to ramp up to ensure Bombardier generates enough cash flow to cover its obligations. That's not guaranteed, especially in the current environment.

Proceeds from the assets sales will help reduce the debt load, but as the remaining debt comes due Bombardier will likely have to issue new debt to pay it off. Selling stock isn't really an option at this point. Bond buyers might not be willing to take the chance on a new debt offering, even if Bombardier prices the bonds with a high interest rate.

Should you buy Bombardier stock?

Traders might be able pick up some quick profits on bits of good news. This was certainly the case in 2008, 2011, and 2018.

Investors with a buy-and-hold strategy, however, should probably seek out other opportunities in the market today.

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