



Bombardier (TSX:BBD.B) Stock: Is a Recovery Possible?

Description

Bombardier ([TSX:BBD.B](#)) took a major hit in recent months. While the stock already faced strong headwinds due to its debt load, the impact of the pandemic has [contrarian](#) investors wondering if the company will survive.

Asset liquidation

Bombardier spent the past few years selling off its entire commercial airline assets. The exit from the sector marks the end of a disappointing effort by the company to secure its position of a global leader in the production of small and medium-sized aircraft.

The CSeries jets held great promise for Bombardier. The new planes offered industry-leading fuel efficiency, attracting significant interest from global [airlines](#) when oil prices hovered near US\$100 per barrel back in 2014.

Had Bombardier been able to meet its initial production and delivery targets for the first CSeries customers, the company could have racked up a massive order book. Unfortunately, the CSeries program ran into serious delays and production troubles. Bombardier missed a number of delivery targets, frustrating early buyers of the new planes and deterring new ones from placing orders.

Customers normally don't pay for the planes until they take delivery. The delays put a major dent in anticipated revenue. Given the significant cost of a new jet, the revenue drop forced Bombardier to take on significant debt. In addition, running a number of years behind schedule drove up development and production costs. As a result, Bombardier burned through significant cash flow.

Revenue from the other plane divisions and the rail business couldn't cover the massive losses racked up by the CSeries. The company required US\$2.5 billion in emergency aid from the Quebec government and the province's pension fund. Bombardier employs thousands of people in Quebec and saving these skilled and high-paying jobs is a priority for the government.

Rescue plan

The board shelved the dividend and brought in new management to try to right the ship. Bombardier's share price went from \$0.80 in early 2016 to \$5.40 in the summer of 2018, but the good times didn't last long.

In the end, Bombardier sold its entire stake in the CSeries to **Airbus**. The company also sold off its turboprop division, its CRJ jet business, and its aerostructures group. These deals have either closed or are expected to close by the end of 2020.

Earlier this year, Bombardier announced plans to sell its rail division to **Alstom**. That deal could close by the middle of 2021.

Business jet bet

Assuming the rail deal goes through as agreed, Bombardier is left with its business jet group. New planes and steady demand held good promise for the division heading into 2020.

The arrival of the COVID-19 pandemic puts the future of the business jet division in question.

Should you buy Bombardier stock today?

Once travel restrictions ease around the globe, demand might surge for the small planes as wealthy individuals and companies turn to private jets to avoid the potential health risks of flying on large commercial planes.

That said, business jet success still might not be able to dig Bombardier out of its debt problems.

The company finished Q2 2020 with US\$1.7 billion in cash and US\$2.5 billion in liquidity. The anticipated closing of the aerostructures unit should add US\$500 million to the cash position.

In the Q2 report Bombardier said it expects to have enough cash to meet obligations for the next 12 months, based on current access to capital and anticipated proceeds from asset sales.

Long-term debt as of June 30 sat at US\$8.95 billion. Bombardier has US\$1.485 billion coming due in 2021. Another US\$1.7 billion is due in 2022, followed by US\$1.25 billion in 2023, US\$1 billion in 2024, and US\$1.5 billion in 2025.

It is uncertain whether Bombardier will be able to issue new debt to replace the maturing notes. If it succeeds, there is still a question of cash flow.

Investors have to decide whether they think the business jet group can save the company.

At this point, nimble traders might be able to make a fast buck on positive price moves. Buy-and-hold investors should probably consider other opportunities today.

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