



## Why Bombardier (TSX:BBD.B) Dropped in 2020

### Description

**Bombardier** ([TSX:BBD.B](#)) stock has been teetering on bankruptcy for years. The pandemic hasn't helped the company's financial situation. Thus, Bombardier stock has suffered a huge drop in market value in 2020.

On the bright side, the firm has secured a loan of \$1 billion. Further, the company claims that it used \$500 million less cash in the second quarter of the year. Bombardier's management is also projecting a return to positive cash flow in the second half of this year.

Before you [buy this stock](#) thinking that it has hit bottom, understand that it could theoretically hit zero dollars per share. You may never get your money back from a bet on Bombardier stock.

While it is true that this company, like many others, may benefit from actual or rumoured government protection, that didn't stop the share price from plummeting this far. What makes anyone believe that it could magically bounce back from these troubles?

If you lost money on Bombardier and wonder if there is hope for your investment, or you want to know if you should buy this stock today, you might want to rethink your optimism. Airing on the side of caution and conservatism is never a bad idea when it comes to stock market investing.

### An unfriendly stock to equity holders

Bombardier stock has gone from a high of \$2.15 to a low of \$0.38 per share. At the time of writing, the stock is trading for \$0.40 per share. That means we have yet to see the substantial boost in share price to signal a good time to buy this stock.

The stock traded as high as the mid-20s back in the early 2000s before falling to less than \$5 per share in 2002. The firm has a market capitalization of \$1 billion today. That's nothing to scoff at, but it is also weak considering that the company is in the high-capital business of manufacturing heavy transportation equipment.

In short, this stock is not necessarily friendly to equity holders. Bombardier's high-debt risk also poses issues for debt holders. Therefore, it might just be a stock that you want to avoid at all costs.

## Bombardier is selling assets

Asset sales aren't necessarily a bad thing. There are many companies that strategically build assets, sell them, and return profits to shareholders. These are great companies to look for, because you can easily predict the direction of their share price.

The asset sales Bombardier is engaging in at this time are best described as distressed. They represent failure rather than success. The company couldn't handle its jet business, so it sold the CSeries to **Airbus**, which then renamed the jets "A220."

Other commercial aircraft divisions the company recently sold include the Dash 8 turboprop operations and the CRJ regional jets. Bombardier will retain control over its business jet program.

## Is it going out of business?

The company may or may not dissolve entirely. Nevertheless, what is an incorporated entity without return producing assets? Bombardier is selling much of its potential.

It might not be going out of business, but it is becoming less of an entity with every asset it sells. That being said, unless it aggressively produces [new revenue streams](#) with higher profit margin potential, the company might be extinct in the next 20 years.

Management certainly needs to improve its efficiency and start returning money to shareholders if they want to stay listed on the **Toronto Stock Exchange**.

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