Bombardier (TSX:BBD.B) Stock: Will it Recover?

Description

Once a top manufacturer of trains and planes, **Bombardier** (TSX:BBD.B) has seen its problems multiply amid the pandemic this year. It has struggled with a pile of debt and poor operational efficiency for years. Between 2015 and 2020, Bombardier stock fell by 75%. It accumulated massive debt on CSeries aircraft in 2014. Falling demand amid the virus outbreak only pushed it further into debt. Today, Bombardier is nothing more than a shell of itself. It will be hard, but Bombardier should survive the storm.

Bombardier stock is now close to $0

The pandemic market crash wiped out Bombardier stock, which lost 78% of its value this year. It has become a penny stock as it trades below $1. In the past six months, the company has laid off 2,500 aerospace workers after suffering losses due to disruption related to the pandemic. Bombardier recently announced it would lay off 200 workers at the Thunder Bay plant within seven months as the company ceases the production of ventilators.

After 34 years, Bombardier exited the S&P/TSX Composite Index on June 22, another consequence of its financial rout. The Quebec multinational was also ejected from the S&P/TSX 60 index, which includes the 60 largest listed companies in Canada.

By 2020, the company has unloaded its Dash 8, CRJ Regional Jet, Q400, and CSeries turboprop programs. The sale of its business units improved the company's balance sheet but also cut its growth engines.

To improve its liquidity position and reduce its debt, Bombardier announced the sale of its transportation division to **Alstom**, which was approved by the European Commission in July this year.

Bombardier shares have mostly stabilized over the past three months. Its current market capitalization is $1 billion.

At the end of the second quarter, Bombardier's consolidated revenues were US$2.7 billion, down 37%

year on year, while adjusted EBIT loss was US$427 million. It has pro-forma liquidity of nearly US$3.5 billion, including approximately US$1.7 billion in cash, US$738 million undrawn revolving credit facility, and US$1 billion senior secured credit facility. Free cash flow usage was US$1 billion.

Bombardier's cash usage for the second quarter was better than analysts' expectations. In the second-quarter report, Bombardier said it expects to have sufficient liquidity to meet its obligations over the next 12 months, depending on current access to capital and expected proceeds from the sale of assets.

Bombardier will recover

In the future, the manufacturer will become a pure-play maker of private business jets. It also appointed new CEO Eric Martel in the hope of redressing the situation. Its disposal of assets, like the Alstom agreement, could provide some relief in the short and medium term. However, improving demand in the post-pandemic world could play a bigger role in its recovery. Global transport is expected to resume slowly, as borders open after the pandemic.

So, after a tough 2020, Bombardier should be back on the path of growth in 2021. Revenue is expected to grow by 6.7% to $14.7 billion, while earnings per share are estimated to increase by 66% to -$0.17 next year.

Bombardier stock is still a risky bet in the midst of the surrounding uncertainties and its immense debt burden. It has the potential to deliver good returns in the long run, but you'll have to be patient.

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