



## Why Did Bombardier (TSX:BBD.B) Stock Jump 7.5% in a Day?

### Description

Yesterday was pretty well for **Bombardier** ([TSX:BBD.B](#)), as the stock jumped 7.5%. Believe it or not, the stock of the company, which has been pruning its businesses to service its spiraling debt, has surged 225% in a year. The 7.5% surge is just a drop in its recovery rally. But yes, there is a reason for this one-day spike.

### Bombardier stock up 7.5%

Last week, Bombardier [announced](#) that it has received the largest business jet order of the year worth US\$451.8 million for 10 jets. Without revealing order details for competitive reasons, Bombardier gave investors hope that the company is back in business. This was important because Bombardier has been struggling to make positive cash flow for several years. One by one, it sold its businesses to reduce its debt burden. Yet the battle is not even half won.

Then came the pandemic, which put all airlines in excess capacity. Luckily, Bombardier no longer makes passenger planes. But even business jet demand fell because of travel restrictions. There is no point buying a jet if you don't have space to park it.

That 10-aircraft order proves that business jet demand has returned. Yesterday's 7.5% rally was a follow-up to the stock's 13.7% rally in the first two days of July after the announcement.

### How long will the stock price rally last?

How long will Bombardier's stock price rally? Bombardier's biggest concern is its \$10 billion debt and the negative free cash flows (FCF). De-leveraging has been the company's priority for a long time, and it always states that it will use any FCF to invest in the business and repay debt. But sadly, it invested negative FCF in the business.

This time, the management has set a 2022 timeline to achieve positive FCF. It has sold off all its loss-making businesses with the last sale of its train business to Alstom. All that is left is its business jet segment, which has generated positive adjusted EBITDA over the years. If the company delivers to its guidance, the stock could be in a long-term rally.

But for now, Bombardier is enjoying a recovery rally. I expect this stock to reach its 2019 high of \$2, representing a 40% upside. Once the stock hits a \$2 price, its growth could plateau.

## Don't hinge on Bombardier and diversify

Bombardier is a risky bet. Even though the stock costs less than a cheeseburger, that does not compensate for the risk. Hence, invest only a small portion of your portfolio in Bombardier. Hedge the risk of a downside with a good [dividend stock](#).

**Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) is a suitable hedge with a 6.8% dividend yield. The pipeline operator has been paying dividends for over 50 years. Its business model allows it to [continue paying dividends](#) for another 50 years. Oil and natural gas will continue to be in demand, and Enbridge pipelines will continue transmitting them. Even if green energy replaces oil in many areas, Enbridge will tweak its pipelines to supply green energy.

All you have to do is cap your speculative bets to the dividend amount Enbridge gives. Even if you lose on your speculative bets, Enbridge will give you a similar or higher dividend amount next year.

While it is important to make profits, it is equally important to curb losses.

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