



Why Did Bombardier Stock Jump From \$1.5 to \$25 in June?

Description

Have you been monitoring **Bombardier** ([TSX:BBD.B](#)) stock for a while? Last month, the stock was trading below \$3, and suddenly its price is above \$20. But if you hold this stock in your portfolio, the profit and loss segment shows a red line. Why?

Bombardier management made a 25-for-1 consolidation of the issued and unissued Class A and Class B shares. What does this mean? If you owned 100 shares of Bombardier, you now own only four. This consolidation helped Bombardier reduce the number of shares outstanding in the market and make each share more valuable.

Why did Bombardier consolidate its shares?

Bombardier: When its stock traded at \$1.5

Bombardier has been struggling to stay afloat and avoid bankruptcy after eight years of losses and piling debt. Its share price fell below \$5. But the pandemic got the worst of Bombardier, and the stock was [removed](#) from the TSX Composite Index in June 2020, as it couldn't maintain a price of \$1.

Getting removed from the index is a big deal, as it reduces the stock's liquidity and limits the company's ability to raise equity capital. Most institutional funds, like [mutual funds](#) and ETFs, track the TSX Composite Index. The index has some pre-requisites. For instance, the stock should have a market capitalization of at least 0.04% of the index, and it should be able to sustain a share price of over \$1.

Bombardier made some tough decisions, selling all its loss-making units and resizing to a pure-play business jet maker — the only profitable segment in its arsenal. It reduced its debt to manageable levels, and the revival was visible in the stock price, which surged more than 200% to over \$2. It [rejoined](#) the TSX Composite Index in September 2021.

But once again, the stock market is receding as the fiscal stimulus bubble burst. Things were fine until the April [pullback](#) made matters worse. The talks of a looming recession started creating panic. Once

again, Bombardier's stock liquidity came into jeopardy, and the stock fell to \$1.5. Its April and May trading volume struggled to stay above 150,000, which is way below its average trading volume of 253,000.

Bombardier stock is trading at \$25

Another market downturn could have put Bombardier out of the index. It can't afford to lose access to institutional equity funding in the current environment, where rising interest rates have made it difficult to secure debt capital. The share consolidation pushed Bombardier's share price above \$25 and its trading volumes above \$1 million, giving it enough bandwidth to withstand a market downturn without losing its place in the index.

What does share consolidation mean to you?

The share consolidation hints that the management is protecting shareholders' interests by keeping the stock liquid. It has even submitted a proposal for a share buyback. However, the consolidation has no impact on your portfolio value. The stock fell 14% after the consolidation, as the overall market is going through a rough patch. It is now an oversold stock.

A recession has not yet shown any material impact on Bombardier's [fundamentals](#), but it will towards the year-end. Although those who fly business jets are unaffected by inflation, a recession affects everyone. In a recession, even companies with a strong balance sheet see a slowdown. Bombardier has already been in a weak debt spot. The stock fell 60% in the 2008-09 recession, even when the company was doing well. The 2022-2023 recession could be the worst for Bombardier, as it is barely profitable.

What should you do with Bombardier stock?

These are challenging times for Bombardier, and the management is working in the best interest of shareholders. The stock is at crossroads. Bombardier stock could double your money in less than a year if it survives the recession. Or it could reduce your investment profit by over 30%.

You can invest less than 3% of your portfolio in Bombardier stock. If the stock doesn't recover, you can offset that loss from gains in other investments. If the stock recovers, you could make a significant gain on investments.

CATEGORY

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