



Bombardier Plays a Dirty Trick on Investors

Description

This Halloween, the trick was on investors holding stock of **Bombardier Inc.** ([TSX: BBD.B](#)) after the company announced third quarter earnings which sent the stock sliding nearly 10% by the end of the trading day. The stock continues to be weak as investors question whether or not the company can deliver its new CSeries aircraft on time.

For the quarter, Bombardier reported adjusted net income of \$165 million or \$0.09 per share on revenues of \$4.1 billion. This compares negatively to the same period last year when the company reported adjusted net income of \$173 million or \$0.09 per share on revenues of \$4.2 billion. The numbers also missed the consensus estimates which were looking for adjusted earnings per share of \$0.10 on revenues of approximately \$4.59 billion.

Other metrics also disappointed as earnings before income taxes (EBIT) as a percentage of revenue fell to 5.2% from 5.7% in the prior year and operating cash flow for the aerospace unit fell 62% to \$179 million.

Leading the way down

There was disappointment across the board, but it was the aerospace unit that put a scare into investors. The unit came up short in several areas compared to the prior quarter last year.

Aerospace revenue dropped nearly 12% to just under \$2.0 billion versus \$2.27 billion in the same period last year. EBIT as a percentage of revenue took a significant hit falling to 4.3% from 5.2% a year earlier. The aerospace unit was hurt by lower deliveries during the quarter, but also experienced a low order intake and poor market conditions according to management. The company delivered only 45 planes during the quarter down from 57 in the prior year. Order backlog was down slightly quarter over quarter to \$32.9 billion as the company received only 26 net orders.

The transportation unit was not completely in the clear either. While revenues for the unit were up approximately 6% to \$2.06 billion, the results did not meet the expectations of management. Margins also weakened as EBIT as a percentage of revenues fell to 6.0% from 6.3% in the same period a year ago. According to management, the weakness was due to execution issues related to various rail

contracts. Order backlog was up compared to last quarter at \$32.6 billion as the company was able to secure orders across all of its transportation related divisions and geographies. However, the new order total of \$1.7 billion still fell short of the \$2.2 billion reached during the same period in the prior year.

Prospects

The current outlook for Bombardier looks bleak, but management was more positive about the prospects going forward. Order backlog is still hovering at record levels and the company is having favorable discussions with potential customers related to its regional and turboprop aircraft.

The company's president and CEO, Pierre Beaudoin, was confident testing for the new CSeries jet is proceeding as expected. The commercial launch was projected to be one year after the initial test flight which occurred in September of this year. Management is maintaining this guidance for now, but remarked that timeline is continually under review. The company expects to have 300 firm orders for the CSeries when the airliner is placed in service. It's currently just over half way there. In spite of the hill to be climbed, management is still confident in the goal.

Final thoughts

Unfortunately the market was very disappointed with the results turned in by Bombardier and the stock was hammered falling 10% the day of the announcement and an additional 3% the following day. So is this a possible entry point into the stock? It may be a little early to make the plunge as downside risks still exist.

The new CSeries will most likely be vital to the success of the stock in the coming months. Any delays or a shortfall in orders will certainly take the stock down from here. For now, I would be very careful picking entry points into shares of Bombardier as the risks currently seem to outweigh the rewards. Once it becomes more clear that the CSeries program will hit both timing and order targets, the balance should begin to shift in the other direction.

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1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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