



2 Reasons Bombardier Will Recover

Description

Bombardier ([TSX:BBD.B](#)) is an aerospace and transportation manufacturing company that is widely followed by investors. It is often on the list of most actively traded stock daily. Lately, the company is a disappointment for investors as it trades at yearly lows. Just after [announcing a delay](#) in launching the new C Series aircraft, should investors expect more downside for Bombardier?

Weak quarter

Bombardier disappointed the markets when the company faced weak market conditions in the aerospace segment. The weak spending from its customers caught the company off guard. Aerospace revenues declined from \$2.3 billion last year in Q3 to \$2 billion. Results were hurt by lower deliveries and by lower selling prices.

Transportation proved equally disappointing. Even though free cash flow improved, Bombardier still faced execution issues that hurt results. Revenue was \$2.1 billion, near the \$2 billion generated last year, but EBIT (earnings before interest and taxes) was hurt by financing expenses.

Expect a short-term recovery in shares

Though Bombardier suffered a weak quarter, investors should still expect shares to recover within the next few quarters. There are two reasons the near-term outlook is positive.

First, the current quarter (Q4) is a seasonal strong period for Bombardier. Q3 was likely hurt by customers delaying orders due to the government shutdown. Bombardier could make up for the delay by boosting deliveries in the quarter. Q4 is also traditionally high, and this should add to cash holdings.

Second, the company won many contracts that will boost its order backlog. Bombardier won a \$2.2 billion order for 38 business aircraft, and a \$639 million transit order in San Francisco.

Finally, Bombardier is capable of improving profit margin. Its Q3 EBIT margin was 6%, but better cost management could improve profitability. By contrast, competitor **Embraer** had a profit margin of 4.11%, while **Boeing's** was 5.23%.

[bbdchart](#)

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Source: YCharts

Boeing shares took off when the company launched the delayed Dreamliner. Investors should expect the launch of the CSeries to support Bombardier.

Risks

Investors with a long-term time horizon should expect risks associated with the CSeries program launch. Bombardier delayed the CSeries launch, which could raise operational expenditures and project costs. Still, the company [cut 1,700 jobs](#) to contain costs. Bombardier wants to secure 300 orders, but only has 182 so far. Lufthansa is one of the companies placing a firm order. Despite the short-term risks, the new aircraft could add \$5-8 billion in annual revenue.

The CSeries uses a lightweight engine made by Pratt & Whitney, a subsidiary of **United Technologies**. The earliest delivery for the new jet is the first quarter of 2015.

Foolish bottom line

Better quarterly results in Q4, set to be released February 13, 2014 before market open, should give Bombardier shares a short-term boost. In the long term, a higher share price will depend on the

success of the CSeries. The product launch gives Bombardier hope for multi-year growth. The market is anticipating delays in the product launch, but if Bombardier meets project milestones, it could be a much bigger company than it is now.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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