Is It Time to Buy Bombardier?

Description

In January, shares of **Bombardier** (TSX: BBD.B) fell approximately 8% on news that production of the eagerly awaited C-Series aircraft would be delayed. The company had indicated investors could expect to see C-Series jets in the sky by the end of 2014, but it pushed back production forecasts to mid-2015. And that's just for the smaller CS100 Series. The larger CS300 Series isn't expected to be delivered to customers until six months after the CS100.

A month later, Bombardier announced weaker than expected Q4 earnings, and further indicated 2014 would be a struggle. The company has been struggling to hit 8% margins, up from the current 5-6% range. Management indicated that 8% margins weren't going to happen any time soon, which sent the share price down another 10%.

The lilver lining

Fortunately for the company, this news isn't as bad as it first seems. Both **Boeing** (NYSE:BA) and **Airbus** are also dealing with delays on their new aircraft programs, the 787 Dreamliner and the A380. It's not such a big deal to be late coming to market when all your competitors are too.

In fact, not only did Bombardier come out of the C-Series delay announcement with its entire order book intact, but a Saudi airline recommitted an order for 16 of the larger CS300 aircraft, with an option to buy 12 more. The total contract could be worth $2 billion, assuming the option is exercised. The firm's customers are disappointed with the delays, but not one has cancelled an order.

Yes, the delay will cost the company more in research and development going forward — analyst estimates are at about $500 million — but that's a small price to pay for a series of planes that's expected to be in production for 20 years. This short-term pain could be a good entry point for investors looking at the long term.

While waiting for the aircraft division to get its act together, Bombardier investors still get to own a rail car division that's a market leader, and has margins 30% higher than the aircraft division (6.5% EBIT margins compared to 5.0%). Demand looks good for the rail business, as cities around the world are looking to invest in public transit to help cut down on both traffic congestion and greenhouse gas emissions.

Strong balance sheet

Bombardier has a solid cash position of $4 billion after its latest round of financing. Yes, it’s also holding some significant debt — to the tune of $7 billion — but both the high cash balance and the almost $65 billion order backlog minimizes the long-term debt risk going forward. The company is also profitable, as 2013 ended up 31 cents in the black. Analysts are estimating the company will earn 39 cents per share in 2014, even after the company’s Q1 guidance was disappointing.

While investors should always be concerned with debt and other obligations going forward, Bombardier should easily have enough to get it through this transition period. Earnings should improve once it starts delivering C-Series jets, and research and development expenses will go down sharply too. The issue is believing the company’s revised timeline for the C-Series. This uncertainty is what’s weighing down the stock.

Foolish bottom line

Patience could pay off for investors if they buy the stock now and the company manages to deliver on its promises. If you’re a believer, now is a terrific entry point.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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Author
nelsonpsmith