



Is Bombardier About to Hit \$7.50?

Description

One of the last bargain stocks in Canada is finally moving higher, and triple-digit gains could be on the way.

It won't happen overnight. However, as I'll show you today, several indicators suggest that this stock has huge upside potential, and investors who buy now could double their money — or better.

Let me explain...

My favourite investing setup is what's called an "ugly-to-less-ugly" situation. It involves buying assets that have suffered through hard times, digested the bad news, and are poised to move higher.

The horrible times could be for all sorts of reasons, such as a recession, industry downturn, or natural disaster. During these periods, most people can't stand the thought of buying. You know it's happening when any mention of the stock during water cooler conversation is mocked.

This is when you can buy otherwise OK assets for pennies on the dollar. In fact, this is one of the few times when you can purchase a stock for less than its real intrinsic value.

That's the situation right now at **Bombardier** ([TSX: BBD.B](#)).

Nothing seems to be going right at the Montreal-based company. Its new CSeries line of jets has been delayed repeatedly, which has resulted in rumours that customers would begin cancelling orders en masse. Also, hundreds of workers have gone on strike at the company's light-rail manufacturing plant in Thunder Bay, Ontario.

To make matters even worse, analysts are now worried about a cash crunch. Last quarter, Bombardier reported a sharp increase in capital spending, sparking fears that the company may need to raise funds.

While it might be hard to stomach the thought of buying Bombardier right now, the damage has been done. The company's shares are off 20% for the year to date. With the stock valued at less than 10

times forward earnings, Bombardier is trading at its cheapest valuation in decades.

When things can't get worse, they can only get better. Despite an engine mishap that has kept test flights grounded since late May, the company racked up 66 new order commitments for the CSeries jets at the Farnborough International Airshow last week. Any rumours of impending order cancellations or new equity issues were also proven false.

However, this is where things get really exciting. According to the **TMX Group**, Bombardier's shares are now some of the most heavily shorted on the Toronto Stock Exchange. Speculators have sold shares they don't own, betting that the stock price will continue to fall.

The risk with this strategy is that if more bad news doesn't materialize, short sellers could start covering their positions. These speculators *need* the stock price to stay flat or continue to fall. Even a small rally could send shares skyrocketing higher in a wave of panic buying.

The bottom line is that Bombardier is a classic ugly-to-less-ugly situation. With prices so low, most of the downside risk has been wrung out of the stock. A single piece of good news could send shares soaring higher.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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