



The Pros and Cons of Investing in Bombardier, Inc.

Description

It has not been a fun three years for shareholders of **Bombardier, Inc.** ([TSX: BBD.B](#)) as over this time, the stock is down by over 25%, badly lagging the index. Problems with the aerospace division, especially the C-Series jet, have been the main culprit.

So is this the time to step in with a contrarian bet on the company? Or is there more room for the stock to fall? Below we take a look at two reasons to buy, and two reasons to stay away from this company.

Why buy?

1. A reorganization of the aerospace division

It's no secret which of Bombardier's divisions has been responsible for the company's struggles: its aerospace division. Chief among its problems has been the C-Series jet, which has endured delays and cost increases.

But Bombardier is shaking up its aerospace business, creating a third business unit: aerostructures and engineering services. This unit, along with commercial aircraft and business aircraft will all report directly to CEO Pierre Beaudoin.

The move will result in 1,800 layoffs, a little less than 5% of Aerospace's global workforce. This could produce about US\$136 million in annual savings, according to Desjardins analyst Benoit Poirier. More importantly, it will ideally make each unit more accountable, something lacking at Bombardier thus far.

2. A cheap stock

Because of Bombardier's problems, the stock price has been pushed down to very low levels. In fact, at less than \$4 per share, the company is trading no higher than it was in mid-2006.

And at this point, the shares are also trading at less than 10 times forward earnings. So if the company is able to get its house in order, there is plenty of upside for the shares.

Why to avoid

1. Problems in Russia

There's no denying that Bombardier, as well as all other companies with business in Russia, are stuck between a rock and a hard place. The tension in Ukraine has only intensified since Russia annexed the Crimean peninsula earlier this year, and it's very hard to tell just how far sanctions against the country will go.

Last August, Bombardier struck a preliminary agreement to assemble Q400 turboprop planes in Russia and sell some of them to Russian companies. That agreement was supposed to be finalized this year, but may be pushed into 2015.

Bombardier also has other business in Russia through its rail and business aircraft units. But that of course is up in the air – especially since Canadian Prime Minister Stephen Harper is being as tough on Russia as any world leader. So an investment in Bombardier is all the more uncertain.

2. Cash flow concerns

Last but not least, Bombardier is bleeding cash, and has been for years now. As a result, its long-term debt has swollen to US\$7.7 billion. This is a big concern, because analysts are forecasting another \$200 million in cash outflow for 2015, which would be the fifth straight year of cash outflows.

So if Bombardier is unable to turn itself around (which mainly means finally delivering the C-Series), then it could face some serious financial difficulty. Given that scenario, Bombardier shares may not be worth the risk. One thing's for sure though: there will be some turbulence ahead.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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