# 2 Reasons to Avoid Bombardier, Inc., and 1 Stock to Buy Instead

## Description

It hasn't been a fun year for shareholders of **Bombardier, Inc.** (TSX: BBD.B) — over the past 12 months, its shares are down about 17%. The main problem has been delays in the CSeries jet, but there have been other issues.



For example, the crisis in Ukraine has put the company's Russian business into question. And negative free cash flow has started to put pressure on the company's balance sheet.

So with the company struggling, and the shares depressed, is now the time to bet on a turnaround? Well, not necessarily. Below we take a look at two reasons why you should avoid the shares, and finish by looking at a name you should consider instead.

**Why to avoid Bombardier**

**1. The reorganization could get messy**

In response to numerous problems, including with the CSeries, Bombardier is overhauling its Aerospace division. The move will create an additional business unit, and all units will report directly to the CEO. Just as importantly, the reorganization will result in 1,800 layoffs, equal to 5% of Aerospace's workforce. We've already started to see the effects, with two high-profile executives departing.

Normally, this would be a positive for the company. The staff reductions will lead to $136 million in annual savings, according to one analyst. And the new structure should boost accountability.

But this is not a normal situation. Bombardier is struggling to meet new deadlines for the CSeries, and is dealing with other issues, such as the company's relationship with Russia. And now, many employees are going to be looking over their shoulder, afraid for their jobs. This could create a lot of disruption, just when the company is least prepared to deal with it.

**2. Cash flow issues**

There is no denying one fact about Bombardier: the company is bleeding cash. So far in 2014, according to Morningstar, the company's free cash outflow has exceeded $1 billion, which follows three straight years of negative free cash flow. Analysts are projecting another $200 million of cash outflow for next year.

This is all putting tremendous pressure on Bombardier's balance sheet. As of the end of June, the company's debt had swelled to $7.7 billion, up from $5.3 billion at the beginning of 2013. So if the company is unable to deliver on the CSeries in time, then serious financial trouble could be in the cards.

**A stock to consider instead: CAE, Inc.**

**CAE, Inc.** (TSX: CAE)(NYSE: CAE) is another aerospace-focused company operating out of Montreal. Unlike Bombardier, it makes money from simulators and related services. Also unlike Bombardier, it is easily the market leader, and makes healthy profits too.

And there are plenty of tailwinds for CAE. For example, the growth of airline travel, especially in emerging markets, is leading to a pilot shortage. This should lead to greater demand for CAE's training services. Better yet, **The Boeing Company** and **Airbus** have very strong order backlogs. So there will be plenty of demand for CAE's simulators.

CAE trades at 18.7 times earnings, which isn't too much for a company that has such strong growth prospects. And CAE doesn't have to struggle with the same issues Bombardier is facing.



**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NYSE:CAE (CAE Inc.)
2. TSX:BBD.B (Bombardier)
3. TSX:CAE (CAE Inc.)

**Category**

1. Investing

**Date**
2025/08/25
**Date Created**
2014/08/25
**Author**
bensinclair