



## Could Bombardier Inc. Shares Drop Below \$3?

### Description

It seems that the news can't get any worse for **Bombardier Inc.** ([TSX: BBD.B](#)) and its shareholders. The main issues have come from the C-series, whose delays, cost overruns, and testing failures have hurt the company's cash flow and balance sheet. The plane, which is already two years late, is targeted for release by late 2015.

But according to a report by Bloomberg, the news could get much worse indeed. Several analysts have predicted that Bombardier will have to delay the C-series for a third time, and that would lead to other problems.

#### "Borderline delusional"

According to the report, one consultant said that Bombardier is "borderline delusional" if it thinks it will meet that target. Other analysts are saying similar things. At the beginning of September, Goldman Sachs analyst Noah Poponak said that further delays are "inevitable". He has a price target of \$3 on Bombardier shares, 19% below Monday's closing price.

For the record, Bombardier executives are sticking by their 2015 forecast. And flight testing has now resumed after more than a three-month delay. The company has completed roughly 15% of the 2,400 hours of flight testing required.

#### Cash flow issues

Bombardier hopes that the C-series jet ends up being a valuable asset for many years. But if there are further delays with the program, then the company will face some shorter-term problems. More specifically, there could be a cash crunch, with \$750 million worth of debt due in January 2016.

Granted, Bombardier does have \$3.9 billion of available liquidity, including \$2.5 billion in cash. But this is down from \$4.8 billion in liquidity at the end of last year, when the company had \$3.4 billion in cash. Analysts are projecting the company to continue burning cash until the C-series program is finished.

Making matters worse, Bombardier has \$7.7 billion of debt in total. With such a levered balance sheet,

creditors may not give the company the flexibility it needs, especially if the C-series is delayed. Under this scenario, Bombardier may need to raise more equity, putting serious downward pressure on the share price.

And even though one can only speculate at this point, this scenario is not out of the question.

## Issues in Russia

Even if the C-series plane is delivered in 2015, there's another big overhang for Bombardier shares: Russia.

The crisis in Ukraine, and the resulting sanctions, mean Bombardier will probably have to delay plans to build a turboprop factory in Russia. This factory was the key piece of a \$3.4 billion letter of intent to sell Q400 planes to a Russian state-owned company.

Bombardier also has a big presence in Russia through its rail division, having acquired a 50% minus 1 stake in Russia's largest signal equipment producer, Elteza. And with no end in sight to the crisis in Ukraine, the value of this investment is likely declining by the day.

So at this point, an investment in Bombardier is likely too risky. Luckily, there are better alternatives. The free report below details one of them.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

## Category

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## Author

bensinclair

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