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

Description

Investors are hovering around the shares of **Bombardier Inc.** (TSX: BBD.B) wondering if the CSeries project is going to be the catalyst that sends the stock skyward to its levels of the old glory days.

Bombardier might eventually succeed with the CSeries planes, but the track record of the project up to this point doesn't provide investors with a lot of confidence that the company's rosy projections for the new jets will be met.

Let's look at the reasons why I think investors should avoid Bombardier right now and consider one other stock instead.

1. Risk of a cash flow crunch

In the world of aerospace deals, airlines typically pay for new planes when they actually take delivery. This means the manufacturer has to foot the largest part of the bill during the production process. In the case of Bombardier's CSeries jets, the company is already two years late and $1 billion over budget.

While Bombardier continues to struggle with the test trials, it still has to pay its bills. One big concern is a huge US$750 million bond issue that comes due at the beginning of 2016. If Bombardier does not meet its late-2015 delivery targets for the CSeries, the company might have to raise capital to cover the debt obligations.

Any move to raise capital to cover a cash flow shortage will be very negative for Bombardier's share price.

2. Risk of a dividend cut

If commercial service for the CSeries gets pushed out even further and Bombardier thinks it might not deliver enough CSeries jets in time, the company could cut or cancel its dividend to save cash.

The current dividend is $0.10 per share and yields about 2.8%. Again, the move would not go over well with the market and Bombardier’s shares would likely drop significantly on the news.

Where should you consider investing instead?

For investors looking to buy a stock that has fantastic long-term upside potential, I think **Cameco Corporation** (TSX: CCO)(NYSE: CCJ) is a better choice.

There are several reasons to be optimistic about Cameco’s future prospects.

1. Uranium prices are going higher

Uranium prices have probably bottomed. The spot price tumbled below $30 per pound during the summer but has begun to bounce back over the past month and the trend looks set to continue. The recent spot price is currently above $34 per pound.

2. Japan reactor restarts

Japan is expected to restart two of its nuclear reactors in the next six months. Despite the pushback from the Japanese public, analysts believe at least 30 of Japan’s 48 operable nuclear power facilities will be put back into operation by 2019.

3. Operational issues are getting resolved

Cameco has settled a dispute with workers at the world’s largest uranium mine and has ended the lockout that shut down production for nearly two weeks. The 535 workers have agreed to a new deal at the McArthur River mine located in Saskatchewan. Cameco has also restarted operations at its Cigar Lake mine, the world’s richest uranium deposit.

4. Global supply will not meet demand

Cameco expects more than 90 net new reactors to be operational in the next 10 years as India, China, and other developing countries try to keep up with huge increases in demand for electricity. Current global uranium demand is about 170 million pounds per year and Cameco expects this to top 240 million pounds by 2024.

A supply shortage is likely given the fact that current annual global production runs about 160 million pounds and the low prices have caused companies to delay or abandon new investment in uranium production.

The bottom line

Investors looking for big gains from an unloved stock are more likely to get the returns from Cameco than Bombardier.

CATEGORY

1. Investing

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