# One Critical Reason to Avoid Bombardier Inc., and One Stock to Buy Instead

## Description

On Friday of last week, **Bombardier Inc.** (TSX: BBD.B) finally got some good news. The Montreal-based company got an order from Macquarie AirFinance for 40 CS300 jets, with an option for 10 more. That brings the total order number to 243, much closer to Bombardier's goal of 300. The stock jumped 3.7% on the news.



Yet the stock is still trading for less than $4 per share, well below the $7 level reached in 2011. This has many investors wondering if the stock could skyrocket, just by rebounding to previous levels. Such an outcome is not impossible, especially if the CSeries plane is delivered on time.

But Bombardier remains a very risky investment. On that note, below is one big reason to avoid the shares – in fact it's the only reason you should need. Then we take a look at a stock you should buy instead.

**1 big reason to avoid Bombardier: Cash shortages**

Bombardier's problems with the CSeries are turning into a major drain on cash resources. This should surprise no one, since buyers usually pay for most of an aircraft only when it's delivered.

To illustrate what that's done to Bombardier, let's look at what's happened since the beginning of 2011. In February of that year, the company had $4.7 billion in debt and $4.2 billion in cash. The $500 million in net debt was very manageable. But then over the next three years, free cash flow was a combined negative $3 billion. Now, net debt stands at $5.2 billion.

And the news could easily get worse. Free cash flow is likely to remain negative until the CSeries is commercially available, putting further pressure on cash resources. And if the jet isn't ready by year-end 2015, then the company could have trouble with a $750 million debt repayment due early the following year.

Bombardier maintains that the CSeries will not encounter any (further) delays. But others are notbuying the story – one experienced analyst called the company "borderline delusional", according to Bloomberg.

**1 stock to buy instead: CAE**

Like Bombardier, **CAE Inc.** (TSX: CAE)(NYSE: CAE) is based in Montreal, and also is in the aerospace industry. But that is where the similarities end.

CAE is the world leader in simulation-based products and services for commercial airlines and militaries. And unlike Bombardier, there are no cash flow issues. This is partly because CAE collects a good chunk of money up front when building products. It's also because the company's service revenue is quite smooth, helping to even out the lumps from selling products. Last year alone, CAE earned nearly $120 million in free cash flow.

CAE's shares may look expensive at over 18 times earnings, but this is a great company, with numerous opportunities for growth. And it's certainly a lot less risky than a company like Bombardier.

**CATEGORY**

1. Investing

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