



Is Bombardier Inc. a Safe Investment?

Description

Bombardier Inc. ([TSX: BBD.B](#)) could be the most debated stock in Canada right now.

Fans of the company say the CSeries jet program will launch Bombardier into a new era of high growth and take the struggling share price back to levels not seen in decades.

On the other side of the runway, the skeptics say the CSeries project was doomed right from the beginning and the financial burden could bring down the entire company.

The tug-of-war between the two sides continues on a daily basis. On September 23, the stock dropped below \$3.50 for the first time in two years, and the critics expected the slide to continue toward the \$3 mark.

Then, on September 26, Bombardier announced a new deal for 40 of the CS300 jets. The buyer is Macquarie AirFinance, a jet-leasing company, and the order includes an option for an additional 10 planes. Bombardier's shares rallied back above \$3.70 over the next few trading sessions.

The deal moves the total number of firm orders for the CSeries jets to 243. Bombardier hopes to sell 300 by the end of 2015.

So, what should investors do?

Let's look at the company's situation to see if Bombardier is likely to make it.

1. Delays are expensive

Time is the most important obstacle for Bombardier right now. The company hopes to have the first batch of CS100 planes in commercial service by the end of 2015. The larger CS300 jets should be flying by mid-2016.

With the program already delayed by two years and running more than \$1 billion over budget, some analysts are sitting on the cautious side of the aisle and telling investors the company could miss the

current delivery target.

2. Cash crunch

Bombardier's rail division is doing well but it won't produce enough free cash flow to cover the company's debt repayment obligations if the first commercial deliveries of the CSeries get pushed into mid- or late 2016.

Specifically, Bombardier has US\$750 million in debt coming due at the beginning of 2016. Airlines generally pay for new aircraft on delivery, and these jets are expensive. List price on the latest order would be about \$3.5 billion.

If deliveries are not made before the debt obligations come due, Bombardier could be forced to raise capital, and that would likely send the stock into a nosedive. The company has already gone to the capital markets to improve its liquidity. In early 2013, Bombardier issued \$2 billion in debt as a result of the delays and cost overruns.

3. Competition

Airbus Group NV and **The Boeing Company** have the financial strength to lowball Bombardier in deals where the customer is looking at the larger version of the CS300. Even if the CSeries program launches before 2016, the long-term success of the program is still not guaranteed.

Investors don't know what price Bombardier is willing to take right now to secure orders for the CSeries jets. Given the current challenges, the recent sale of 40 planes probably wasn't at list price.

4. Historical returns

Long-term Bombardier investors are desperate for good news. The stock is down 23% in the past five years.

The bottom line?

In the end, Bombardier's fans could be proven right, but the risks are still pretty high. It might be best for investors to sit tight and watch from the waiting lounge until the first few CSeries planes go into commercial operation.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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