3 Reasons to Buy CAE Inc. Instead of Bombardier Inc.

Description

It hasn't been a fun year for shareholders of **Bombardier Inc.** (TSX: BBD.B), with the stock down 20% so far in 2014. Continued problems with the CSeries have been the main reason for this.

But now, with the shares trading at $3.60, many are wondering if this is an opportunity. After all, if the CSeries issues eventually get worked out, then the stock could rebound in a big way.

That being said, you should be very careful before buying Bombardier shares. In fact, there's another Quebec-based aerospace company you should consider instead: **CAE Inc.** (TSX: CAE)(NYSE: CAE). Below, we present three reasons why.

1. Problems with the CSeries

While the CSeries has been the main source of Bombardier's troubles, there was some good news recently, when Macquarie AirFinance ordered 40 jets. That brings Bombardier's firm order total to 243, well within reach of its goal of 300.

But, unfortunately, more problems could be upcoming for the CSeries. Bombardier expects the plane to be commercially ready by the end of 2015, but numerous analysts believe that such a target is unrealistic. One analyst even used the phrase "borderline delusional".

Meanwhile, CAE has no such concerns. The company, which makes money from simulation-based products and services, earns revenue from a variety of sources, and is not overly reliant on one single product or customer. In the last 12 months, revenue has been split fairly evenly between products and services
and also evenly between commercial and military customers. There's even been a balanced split between the U.S., Europe, and other international markets.

2. Cash flow

Bombardier has been burning cash for years now. For example, free cash flow totaled negative $1 billion last year. And until the CSeries is completed, that trend will likely continue.

These problems are nonexistent at CAE. When the company builds products, it gets a good chunk of the money up front. Selling services requires big capital expenditures, but the revenues tend to be more consistent. Last fiscal year, CAE made over $200 million in free cash flow.

3. The balance sheet

This is where Bombardier's cash flow issues become a real problem. The company's debt stands at $7.7 billion, with $750 million due at the beginning of 2016. The good news is the company has nearly $4 billion of available liquidity. But if the CSeries program isn't finished on time and cash flow continues to be negative, the company could get squeezed very seriously. As it stands, its net debt equals 229% of equity.

Meanwhile, CAE's net debt stands at a very manageable 60% of equity. So an investment in this company is far less risky and far more appropriate for most portfolios.

There are other good alternatives to Bombardier, and five are shown in the free report below. It's worth reading before making any investment decisions.

CATEGORY

1. Investing

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

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