

Is Bombardier Inc.'s Stock Upswing Here to Stay?

Description

It's been rough for **Bombardier Inc.** ([TSX: BBD.B](#)) and its investors for the past few years. Shares managed to creep out of the recession in 2011 trading as high as \$7.05, but have spent most of 2014 skirting between \$3.50 and \$4.50.

It's been a good week for the stock, as it has seen its best upswing in the past three months, which is leaving investors wondering what to do about Bombardier. So let's take a look at the three key factors that will determine the future of Bombardier and its aerospace division.

The CSeries

What was once deemed the upcoming golden goose of Bombardier has spent much of its development looking like the ugly duckling of the aerospace industry. Delays, order uncertainties, and \$1 billion cost overruns have nearly crippled the company. But the proverbial dawn might be approaching as some key purchase orders continue to roll in.

Customers such as Lufthansa has already ordered 30 CSeries aircraft for its Swiss operations and has an option for 30 more. Plus, rumors have emerged that Lufthansa's Austrian subsidiary is seeking permission to purchase 16 CSeries. This potential order would be a nice follow-up to the 40 CSeries order by Macquarie Group Ltd. of Australia last month.

Bombardier is only about 50 orders short of its 300 aircraft target it hoped to meet by the time the CSeries went into commercial operation. If the CSeries program is a success, it could generate over \$8 billion worth of revenues for Bombardier.

The Q-400 a winner

While the CSeries has brought many sleepless nights, another aircraft recently launched by Bombardier is enjoying great success. The Q-400 is a smaller turboprop aircraft that has been marketed to smaller regional airlines. Here in Canada, the Q-400 makes up the entire fleet of **WestJet**'s Encore discount carrier and is one of over 50 airlines currently employing the aircraft across the globe.

In its Q2 earnings release, Bombardier showed a firm order backlog of 35 Q400's and options for 91 more. The success of this aircraft couldn't come at a better time for Bombardier as there is another part of the company's aerospace operation that is beginning to suffer.

Lax luxury

While Bombardier has been putting out engine fires with the CSeries, its long-held title of “the world’s largest business jet maker by revenue” was taken away by Gulfstream (a division of **General Dynamics**) — a title that could take a very long time to reclaim as Gulfstream has announced its next its newest aircrafts the G500 and G600, which will enter service in 2018.

Gulfstream managed to take advantage of a gap in new aircraft releases by Bombardier by releasing the G650 long-range large business jet. As a comparable option from Bombardier the Global 7000 won’t be released until 2016. This doesn’t even take into account the troubles faced by the LearJet 85 model, which has seen just as many development issues as the CSeries.

Is Bombardier worth the wait?

In the short term, no. But in the long term, yes. The CSeries still has the potential to reshape the company’s financials for the better, and once the first generation of aircrafts has entered service, airlines may be more open to place an order. While the luxury division will fall flat for the next three years, it could begin to recoup come 2018. If all of this comes to fruition, the \$3.89 the stock is trading at could look like quite a bargain a few years from now.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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