

Is Now the Time to Gamble on Bombardier Inc.?

Description

On Thursday morning, **Bombardier Inc.** ([TSX: BBD.B](#)) reported earnings for the third quarter of 2014, and there was a lot to like. Revenue rose by 20% year-over-year to \$4.9 billion, and adjusted income increased by 35%. Excluding one-time costs, the company's adjusted earnings per share beat analyst estimates by 25%.

Those one-time expenses are related to nearly 3,000 layoffs. This restructuring is expected to save the company nearly US\$270 million per year. And there are other reasons to be optimistic. Flight testing for the CSeries jet is progressing well, having now reached 450 hours.

The quarter did not go perfectly. Quebec cut some tax credits by 20%, a move that was denounced by Bombardier CEO Pierre Beaudoin. Also, the company put off negotiations to assemble turboprop planes in Russia, due to the political situation there. Such a move was to be expected.

That being said, there were some very positive aspects to the earnings release. So is now the time to bet on Bombardier? Well, not necessarily. Let's take a look at two big reasons to stay away.

1. Cash flow issues

Bombardier continues to use cash at an alarming level. This quarter, free cash flow came in at negative \$368 million, worse than the negative \$184 million that was forecast. This is likely the main reason why Bombardier's stock fell.

This negative cash flow has put tremendous pressure on Bombardier's balance sheet. The company's long-term debt now stands at \$7.6 billion, up from \$5.4 billion at the beginning of 2013.

In the near term, there is enough liquidity to keep Bombardier afloat; the cash balance stands at nearly \$2 billion, and another \$1.4 billion is available through a credit facility. But if the company keeps burning cash — which it surely will do if delays continue for the CSeries jet — then this could change, especially since \$750 million in debt is due in early 2016.

2. The CSeries

As mentioned, testing for the CSeries jet has picked up, and Bombardier still plans to release the plane in the second half of next year.

But numerous analysts aren't convinced, and this includes an analyst at Goldman Sachs. One other experienced analyst even used the words "borderline delusional" to describe Bombardier.

If these analysts are right, and the CSeries is delayed yet again, it could spell big trouble. Costs would surely spike, cash flow would continue to be negative, and the balance sheet would deteriorate further.

Granted, Bombardier could prove these analysts wrong. But is that really a chance you need to take? Instead, you should avoid this company and look for a more reliable name instead. Five companies

you may want to consider are revealed in the free report below.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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1. Investing

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