



## What's in Store for Bombardier Inc. in the Medium Term?

### Description

I've been bullish on **Bombardier Inc.** ([TSX: BBD.B](#)) despite a turbulent couple of months recently. Its long-anticipated CSeries has faced engine issues, and to make matters worse, it lost several big orders due to cancellations from clients.

However, the company reported its earnings results for the third quarter, and the future definitely looks promising — in spite of a 50% drop in earnings this quarter.

On the surface, this in no way looks positive. But if you dig a little deeper, this drop was caused mainly by a charge related to a major restructuring plan that Bombardier had announced earlier. If that cost is accounted for, profits beat expectations this quarter, and revenue was up 20%, beating analysts' expectations.

The restructuring was related to the company's aerospace division and included cutting about 1,800 jobs. While that was brutal, the move is proving to be positive for the company, as it is expected to save about a quarter of a billion dollars annually.

### Progress on the CSeries

Bombardier's most promising catalyst is its troubled child, the CSeries jet. Management has finally indicated that flight testing is progressing well (although admittedly on a tight schedule) — 450 hours of flight tests have been recorded since testing resumed last month after the jet remained on ground for about a 100 days due to engine issues. Two more flight tests are expected soon, and that will accelerate the hours so that the aircraft can go into service in the next quarter.

What will be interesting to watch is the number of orders that will likely pile up for the company. In another month or two, Bombardier will be able to get the data that measures the performance of the aircraft so a proper comparison can be made with the projected performance. Once that is done, all the current orders — which are still only letters of intent — will most likely convert into firm orders.

Bombardier's mass-transit division has also been doing well. The company has two broad products — the monorail and the e-bus. These are products that appeal to urban markets, which produce the most

rapid growth today and see the most investment. The cost of building this infrastructure is about 30-40% cheaper than constructing a subway line, and that's a huge part of its appeal. Bombardier has about 90% of the market for monorails. That comes to about \$400 million annually in business, and that number is expected to grow.

Although Q3 tends to be the toughest quarter for the company from a seasonal perspective, Q4 looks promising. The company has ended this quarter rather well, with a healthy liquidity position of \$3.3 billion. The key to driving the share prices higher is getting orders for the C Series, which is most likely to happen, since it seems most of its troubles are behind the company now. The C Series will come into production in 2016, which should bring another great year. That is why I would recommend buying Bombardier at these levels or holding on to it if you already own it.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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1. Investing

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