

Could Bombardier Inc. Shares Hit \$10 in 2015?

Description

It's been a good month for shareholders of **Bombardier Inc.** ([TSX: BBD.B](#)).

Since temporarily dipping below \$3.50 during the market sell-off in October, shares of the beleaguered transportation company have been on fire, closing on Thursday at \$4.29 each. That's a return of nearly 25% in just one month.

A nice move, but can Bombardier continue its outperformance? After all, this is the same company that has been forced to deal with several delays in getting its new line of CSeries jets to market. First deliveries were expected in late 2014, now official word is customers can expect to get their jets sometime in the second half of 2015. There are even rumblings Bombardier may be forced to delay deliveries once again, thanks to a failed engine test in the summer.

Even though the status of the CSeries line is creating some serious headwinds for the stock, it still keeps moving higher. Why is it moving higher? And, more importantly, can the stock maintain its momentum in 2015? I think it will. Here's why.

CSeries optimism

It's amazing how the market can turn on a dime.

Just a couple of months ago, investors were incredibly pessimistic about the CSeries. The latest delay sent shares reeling, and the market was all but certain yet another delay was in the cards.

To management's credit, they've done some things right since. They fired the exec in charge of the CSeries, as well as reorganizing the entire unit with 1,800 additional layoffs. The company also secured a large order with an Australian carrier, bringing the total number of planes in the pipeline to 243, with options for an additional 162.

Investors are starting to realize that, for all its problems, the CSeries project is finally close to delivering planes to customers. With deliveries, comes increased earnings.

This optimism hasn't been lost on analysts, either. Their consensus earnings target for 2015 has been hiked all the way up to \$0.50 per share, compared to the \$0.26 per share the company earned over the last 12 months.

Throughout most of 2014, Bombardier shares traded at approximately 15x earnings. If the company can just maintain that multiple by the end of 2015 while hitting analyst targets, then shares will trade at \$7.50. That's an upside potential of 75% in just over a year.

But it could get even better. Bombardier's shares traded at 15x earnings during a time of significant pessimism. Investors were convinced more CSeries delays were likely. Bears were even saying the company would be stretching to refinance debt coming due in 2015.

If 2015 plays out the way I predict, it could be a whole new ballgame for Bombardier. Momentum investors, hedge funds, and growth investors could not only bid up the price, but will also likely be willing to pay a higher valuation as well. Thus, I don't think setting a target price of 20x 2015 earnings is out of line. Remember, the company expects to sell CSeries jets for the better part of 2 decades. It also seems likely CSeries orders will increase once customers start taking deliveries.

Based on 20x projected 2015 earnings, investors could watch Bombardier go up to \$10 per share. That's upside potential of nearly 150% from today's levels.

Of course, this all comes with one risk — what if the company can't deliver? Shares will decline if CSeries deliveries are pushed back once again, but there's huge potential upside if the company can maintain its current schedule. If things work out, \$10 per share could very well happen.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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