

Why You Shouldn't Jump at Bombardier Inc. Shares Just Yet

Description

Over the past couple of months, shareholders of **Bombardier Inc.** ([TSX: BBD.B](#)) have enjoyed a nice rebound in the company's stock. In fact, since September 23, shares of Bombardier have appreciated by more than 20%.

It's easy to see why. The much-maligned CSeries jet secured a big new order from an Australian customer, bringing the total order count to 243. Better yet, the company is going through a restructuring, which could help save \$136 million per year (according to one analyst).

So is this the time to gamble on the company? Not necessarily. Below we examine three reasons why.

1. "Borderline delusional"

The CSeries jet program has already been delayed a couple of times, and now the company hopes it will be ready by the second half of 2015. Unfortunately, many analysts think it will be delayed again. One analyst put it very bluntly: "They're being borderline delusional if they think they're going to meet the 2015 target." **Goldman Sachs** analyst Noah Poponak had a similar view, saying that further delays are "inevitable".

Bombardier is still sticking by its 2015 target. But if there are any further delays, that will not be good for the company's stock price.

2. Negative cash flow

A delay in the CSeries would be no laughing matter – until the jet is delivered, Bombardier will likely continue to burn cash. This is because the bulk of customer payments occur upon delivery. To illustrate, free cash flow for Bombardier has totalled *negative* 4.7 billion since the beginning of 2011, according to Morningstar.

As a result, the company's debt load has absolutely ballooned, currently totalling \$7.6 billion. And \$750 million of this is due by early 2016, after the CSeries supposedly gets finished. If there are any delays, this could all turn into a major problem.

Is this really the kind of chance you want to take in your portfolio? After all, what's the success rate of people betting against Goldman Sachs?

3. Issues in Russia

This is a smaller issue for Bombardier, but not one that should be ignored. The company has a significant presence in Russia, and sanctions against the country are putting those operations under threat.

For one, Bombardier's rail division has a leading share of Russia's signalling market. Secondly, the

company had a proposal to build a US\$3.4 billion turboprop factory, but those plans have been put hold. And given Canada's hardline stance against Russia, that project may never see the light of day.

That being said, Russia is still only accounts for a small percentage of Bombardier's revenue. So this is really only an annoyance for the company. But it's one more headwind, right when the company can't afford any bad breaks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/07/23

Date Created

2014/11/25

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