The Stock Picker's Guide to Bombardier Inc. for 2015

Description

Last year was another rough one for **Bombardier Inc.** (TSX:BBD.B) and its shareholders, with the stock down roughly 10%. The main factor was continued problems with the CSeries jet, which went through an engine failure last summer.

But more recently there has been some optimism. This was partly due to a big CSeries order from Macquarie AirFinance, and flight testing has also been going well. The stock has reacted accordingly, increasing by about 20% since mid-October.

So is it now time to jump on the Bombardier bandwagon? Below we take a look at what lies ahead for the company in 2015.

The deadline nears

Bombardier's goal is to have the CS100 aircraft ready by the end of this year. CEO Pierre Beaudoin has stuck by this deadline, telling analysts he is "very confident" in the timeline. But others are not so convinced. After the engine failure last summer, most analysts agree the company has practically no wiggle room, and any further delays could push the release date into 2016. Others are even more skeptical.

For example, one analyst said, "They're being borderline delusional if they think they're going to meet the 2015 target." And Goldman Sachs analyst Noah Poponak has said that further delays are "inevitable".

Trouble looms if the deadline is missed

Bombardier talks a big game about the CSeries, calling it "a game-changing single-aisle aircraft – something the industry hasn't seen in close to 30 years." Unfortunately, the CSeries has also been a major cash drain for Bombardier.

In fact, Bombardier has spent roughly $4.4 billion on the plane to date, a very large amount for a company worth just over $7 billion. As a result, cash flow for the company has totalled *negative* $4.3 billion since the beginning of 2011. And this has put tremendous strain on the balance sheet – adjusted debt now stands at $8.3 billion, up from $5.3 billion at this time in 2011.

And until the CSeries is delivered, Bombardier will continue burning cash. This is because airlines pay the bulk of a plane's purchase price upon delivery. So a delay could seriously stretch the company.

Making matters worse, the company has $750 million of debt coming due in early 2016. This could become very difficult to service if current cash flow trends continue.

Just too great a risk

Granted, if Bombardier is able to follow through on its promises, there could be big share price gains ahead. The stock price is very depressed right now, and reflects the investment community's lack of trust in Bombardier's management. The stock could fly even higher if low oil prices provide a big boost to the airline industry.

But at this point, the risks are simply too high, and this company is just too speculative. You should wait for the story to become clearer before buying any shares.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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