



How Should You Play Bombardier Inc. After its 26% Drop?

Description

Bombardier Inc. ([TSX:BBD.B](#)) has had its share of turbulence, but I've been bullish on the company since it had a promising last quarter. After everything that went wrong with its CSeries and order books, the company still outperformed most of its aerospace competitors in the second half of last year.

In fact, several industry analysts who closely follow the company were bullish on the stock for 2015. But now, I'm beginning to have my doubts given the company's recent slew of negative announcements.

The company revised its 2014 guidance to the downside, announced a pre-tax write-off of \$1.4 billion for the fourth quarter, and said it will be suspending its Learjet 85 program resulting in 1,000 jobs being cut. This slaughtered the stock by roughly 26%, its biggest decline in over a decade. All the recent momentum that built the stock was wiped out and it now trades around \$2.92.

Bombardier's business jet program, Learjet 85, is being suspended after demand for the jets has fallen by 50% since 2008. This program was announced on October 30, 2007, and was first set to go into service in 2013. It has already been delayed for two years and would still take a few more years to start rolling out. But putting a pin in the program is equally expensive — it took a \$1.4 billion charge. That's huge for a company that has already exceeded its budget for other programs and has lost a ton of orders in the process.

Because of this billion-dollar write-off, many analysts are concerned Bombardier's liquidity position especially since the company cut its 2014 guidance. According to CIBC's analysis, Bombardier had short-term capital resources of about \$3.8 billion at the end of 2014. That includes cash of roughly \$2.4 billion. As per Bombardier's new guidance, the company expects to end the year with a minimum \$3 billion in liquidity (including \$2 billion in cash). Take into account the \$1.4 billion charge due to the Learjet 85 project, and the company's liquidity position looks rather concerning.

But there still is some hope. It's normal for companies in this space to have the highest usage of free cash flow during the first half of the year. Bombardier's management has reiterated and reassured investors that it has enough liquidity to fund its development costs for 2015. According to CIBC's

analyst (among others), Bombardier's balance sheet does seem to have sufficient room to handle the costs.

But overall, at the moment, there have been too many blows to Bombardier's credibility for me to continue to be bullish on the stock. Company management continues to reassure the world that its CSeries planes will be on schedule, but I'd rather see it to believe it. That's why I suggest sitting on the sidelines for now.

I'm all for the strategy of being greedy when others are fearful, but this time, I'd rather be cautious. If you are looking to buy the stock in the near future, I reckon putting that off for a few more months, since as of now, the dark clouds are settling over Bombardier.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/07/21

Date Created

2015/01/19

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