Is Now Finally the Time to Buy Bombardier Inc.?

Description

It's been a rough ride for shareholders of **Bombardier Inc.** (TSX:BBD.B). As of this writing, the shares are trading below $2.70 per share – just last week, the shares were trading above $4. And back in 2011, the shares could be sold for north of $7.

So what's gone wrong? And with the shares trading so cheaply, is now a great buying opportunity? Below we take a look.

The latest bad news

On January 15, Bombardier shocked investors by pausing its Learjet 85 program due to "weak market demand", resulting in 1,000 layoffs, $25 million in severance charges, and a $1.4 billion writedown. In the same press release, the company lowered its guidance for the 2014 fiscal year. Notably, cash flow from operations (which was expected to fall between US$1.2 billion and US$1.6 billion) is now expected to total only US$800 million.

Bombardier's share price plummeted by more than 25% on that day alone. It has fallen by another 12% since then. So is now the time to snap up the shares at a discount?

The case for Bombardier

It's become very clear that investors have lost faith in Bombardier. As a result, there could be some serious upside if the ship gets turned around.

To put this in perspective, at one point, analysts thought that Bombardier could earn $0.50 per share in 2015. At 15 times earnings, that would put the company's shares at $7.50. And if the CSeries jet is released in time, then the shares could have even more upside.

Still not worth the risk

That being said, there are just too many reasons not to buy the company's shares.

Let's start with the CSeries, which thus far has been a huge cash drain. Bombardier hopes the first version of the plane will be ready by the second half of this year. But many analysts think that a further delay is inevitable.

And if the CSeries is not ready in time, then the company would be in serious financial trouble. Debt covenants would come under pressure. And US$750 million worth of debt is due in early 2016. For now, the company has roughly $3.8 billion in "short-term capital resources", including $2.4 billion in cash. But that number may not be big enough under the wrong circumstances.

There are other reasons not to like the company. CEO Pierre Beaudoin has lost the trust of the investment community. It's easy to see why – Bombardier's shares are down by two-thirds since he took over in June 2008. But thanks to Bombardier's dual-class share structure, regular shareholders can't push him out. Only a select group of insiders has that power, and that group is led by Chairman Laurent Beaudoin, Pierre's father.

For these reasons, Bombardier is likely not worth buying at any price. After all, you've worked hard for your money. Why entrust it to a company with these kinds of issues? Instead, if you're looking for a turnaround stock with big upside, the stock below is a far better option.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date
2025/07/22
Date Created
2015/01/20
Author
bensinclair