

3 Things That Must Happen Before You Buy Bombardier Inc.

Description

Shareholders of **Bombardier Inc.** ([TSX:BBD.B](#)) have not had a happy new year. The company's shares are down more than 32% so far in 2015. And this has only been the latest bad news; the stock is down by about 60% since June 2011.

Does that mean now is the time to jump in? After all, the shares must be looking pretty cheap. The company is worth just under \$5 billion on the open market, yet generates roughly US\$18 billion in annual sales.

But don't go buy shares just yet. There are three things that need to happen before this company becomes a viable investment.

1. The CSeries needs to be finished

After Bombardier canceled its Learjet 85 business jet program, it is now pinning its fortunes on the CSeries. And so far, the CSeries has not been a winning bet, plagued by delays and cost overruns. The final cost of the program is now estimated at US\$4.4 billion, more than the company's entire market value!

Bombardier hopes to have the first CSeries plane ready by the end of this year. But analysts are not so convinced. One analyst from **Goldman Sachs** said that further delays are "inevitable". Another said that Bombardier is "borderline delusional" if it thinks that the plane will be ready before 2016.

Still, Bombardier management is sticking with its latest deadline, convinced that there will be no more delays. If they're wrong, the share price will take an absolute beating.

Cash flow needs to turn around

There's a reason that Bombardier desperately needs to finish the CSeries. The company has been burning cash for years. According to Morningstar, free cash flow at Bombardier has totaled negative US\$3.5 billion since the beginning of 2012.

But there is some good news. When the CSeries is finished, cash flow numbers will turn around. Not only will the development program be over, but airlines pay the bulk of a plane's purchase price *upon delivery*.

Until then, expect cash to continue flying out the door. As an investor, this is something you want to avoid.

The balance sheet also needs to turn around

There's a reason Bombardier desperately needs cash flow to turn around. The company's balance sheet is a mess, with US\$8.3 billion in debt and other obligations. And \$750 million of this debt is due

in early 2016.

Bombardier does have US\$3.8 billion in liquidity, including US\$2.4 billion in cash. But analysts are convinced the company needs to raise more money — one estimate pegs Bombardier's needs at US\$1.75 billion over the next 12 to 15 months. This will not be easy to raise as long as cash flow is negative.

Just wait

At the end of the day, investors really need to wait until the CSeries is complete before buying Bombardier's shares. If the plane experiences no further delays, then the company will become a more viable investment.

It's true that Bombardier shares will take off if its fortunes turn around. But betting on this would be a real roll of the dice. If you're looking to make this kind of gamble, then Casino Montreal is only a 10-minute drive from Bombardier headquarters. Otherwise, you should wait patiently.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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