Bombardier Inc.: This Risky Stock Has Multi-Bagger Potential

Description

It hasn't been a good January for **Bombardier Inc.** (TSX:BBD.B) shareholders.

A couple of weeks ago, shares of the struggling manufacturer of trains and planes plunged more than 25% on news that it was pausing its Learjet 85 program, which would cost about 1,000 employees their jobs. It also warned on its fourth quarter numbers and announced a pre-tax charge of $1.4 billion.

But most important for long-term investors is what was said in between the lines. Management acknowledged the company runs the risk of needing to raise more money in 2015, even though it currently has $2.4 billion in cash and access to $1.4 billion worth of credit. It's little wonder the stock reacted so badly on the news.

For conservative investors, Bombardier's current situation all but screams "stay away." If the company is forced to delay its much-anticipated CSeries line of mid-sized business jets once again, there is the very real possibility of creditor protection. The company is sitting on nearly $8 billion in long-term debt, compared to a market cap of $5.1 billion. Getting rid of some of the debt through bankruptcy would probably be beneficial to the company's health.

But for investors who don't mind investing in a coin flip with interesting odds, Bombardier could be for you. Let's take a closer look at the positive aspects of an investment in the beleaguered company.

A 50/50 bet

Investing in Bombardier is essentially a 50/50 bet on the company's survival. If you're wrong, the result could wipe out your entire investment. But if you're right and the company pulls itself out of this hole, shares could double or even triple over the next two or three years.

It would be silly to bet your entire net worth on a situation like that. Even 10% of your investment dollars into a company like Bombardier is too many. But as a small portion of your portfolio, the stock could make sense.

Remember, the company has been fairly successful at getting pre-orders for its CSeries line. If it manages to start delivering some of the 243 planes it currently has in its backlog (with options for 162 more) in 2015, that'll go a long way towards eventually paying down the debt, and should help the company bleed less cash. Once CSeries deliveries begin, Bombardier's negative cash flow should turn positive again, since it won't be spending so much on R&D.

If you combine the CSeries backorders with the rest of the company's backlog, there's still plenty of demand for Bombardier's products on both the rail and air sides. The current backlog is approaching $50 billion, which, at its current pace, is enough to keep the company busy for two full years. Actual CSeries deliveries should help as well; rumors on the street are that several airlines are ready to order jets from Bombardier, but want to wait until it actually delivers.

Value investors tend to look for companies with strong balance sheets and a potential upcoming catalyst. Bombardier certainly has a potential catalyst, but the problem is with the balance sheet. If the company is forced to raise capital during the latter half of 2015, shares could once again plunge as bankruptcy worries spook investors. Personally, I'm staying away from this turnaround story because I think there's too much risk. For someone with a different outlook, Bombardier could be a big winner.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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Date
2025/10/02
Date Created
2015/01/29
Author
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