3 Reasons to Sell Bombardier Inc. and Buy CAE Inc.

Description

Bombardier Inc. (TSX:BBD.B) has had its fair share of problems, whether it be negative cash flow, issues with the CSeries, or its giant debt load. And if the CSeries runs into any further delays, then the company's problems could get a lot worse. So personally, I wouldn't own the shares, not even at this depressed price.

That said, the picture looks very bright for the aerospace industry in general. Passenger traffic is growing, airlines are healthy once again, and plane makers have full order books. As a bonus, low oil prices are providing a nice boost as well.

Luckily, you don't have to own Bombardier shares to participate in this industry. In fact, there's another Montreal-based aerospace company you should own instead: simulation technology provider **CAE Inc.** (TSX:CAE)(NYSE:CAE). We take a look at three reasons you should own CAE instead of Bombardier below.

1. Cash flow

It's no secret that Bombardier's cash flow has been severely negative in recent years. This is mainly because CSeries customers only pay for the bulk of the aircraft *upon delivery*. So, as long as this plane is under development, Bombardier must swallow the cash costs.

With CAE, the story is a little different. When the company builds a simulator and sells it to a customer, lots of cash is collected upfront. As a result, a lot less cash is tied up when building simulators. This makes growing income a lot easier, especially when the aerospace industry is doing so well.

2. The right mix

Both companies claim to have a very diverse set of business lines. But once again, there are some big differences between the companies here.

We all know Bombardier makes both planes and trains, but these two business lines don't really help one another. In fact, numerous analysts have said the company should be broken up. Can you really say Bombardier has good diversification if one jet project can bring down the whole company?

CAE also has a diverse set of business lines. For example, the company sells to both commercial and military customers. It also has a presence in 35 different countries. But at the same time, CAE really only does one thing: simulation. And that focus has helped the company ward off competitors for so many years.

3. The balance sheet

CAE's balance sheet is not perfectly clean, with about $1 billion in net debt, about a quarter of the company's market value. But it's a lot better than Bombardier's, whose net debt far exceeds the company's market value. And this debt level is set to grow significantly, thanks to the company's latest financing plan.

Granted, CAE is not particularly cheap because it's currently trading at about 20 times earnings. But with this company, you can bet on a strong and healthy aerospace industry, without worrying about cash flow and balance sheet issues. It's a great option for your portfolio. As for Bombardier, I would stay on the sidelines.

CATEGORY

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