3 Reasons Why RBC Says You Should Buy Bombardier Inc.

Description

These days, it's hard to find anyone who thinks you should buy **Bombardier Inc.** (TSX:BBD.B). One such person is Walter Spracklin, an analyst at RBC Capital Markets. He claims that the "deep negative sentiment" reflected in Bombardier's stock price is overdone, and that there's a lot of upside from its $2.50 share price. In fact, he has a $3.50 price target for the stock, 37% above today's price.

So, why is Mr. Spracklin so optimistic? Below we take a look at three reasons for his optimism.

1. Liquidity is no longer a concern

At the beginning of this year, there were some serious worries that Bombardier would go bankrupt. After all, the company was burning cash to develop the CSeries, and was buried in a mountain of debt. If the plane experienced any more delays, the company would find itself under serious pressure.

Fast forward to today, and many of those problems remain. Debt remains high, cash flow is negative, and there's a big risk the CSeries will be delayed again. However, there's no longer a real threat of bankruptcy. This is because Bombardier recently completed a US$2.4 billion capital raise.

According to Mr. Spracklin, the company now has US$6.2 billion in cash and available credit. This should be more than enough to launch the CSeries, at which time cash flow should improve.

2. Light at the end of the CSeries tunnel?

There's no denying that the CSeries has been a disaster thus far, with numerous delays, skyrocketing costs, and lackluster order numbers. However, there are reasons to believe the CSeries has turned the corner. First of all, 80% of the flight testing has now been completed. The company is getting very close to the finish line.

Second of all, as the CSeries nears completion, customers will be more comfortable that the plane will be ready on time. So, we could easily see orders pick up. The Paris Air Show in June should provide more clarity on this point.

3. A cheap stock price

Bombardier skeptics like to point out that the CSeries probably won't generate any return for shareholders once the US$5.4 billion development cost is factored in. They're probably right. However, that US$5.4 billion is a sunk cost (i.e. it's already gone), and we should focus instead on future contributions from the CSeries.

According to Mr. Spracklin, Bombardier's ~$2.50 stock price doesn't reflect the value that the CSeries provides, nor does it reflect the value of Bombardier's other products. The stock price is down by 40% this year alone, and may have fallen too far.

Granted, this stock remains a very risky name. That said, if the company indeed turns the corner, as Mr. Spracklin believes it can, there's big money to be made.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date
2025/07/22
Date Created
2015/03/26
Author
bensinclair