



Is Bombardier Inc. Still Worth US\$3.50 Per Share?

Description

Late last week, RBC Capital Markets analyst Walter Spracklin made the case that **Bombardier Inc.** ([TSX:BBD.B](#)) is a fantastic investment opportunity. He noted that much of the CSeries troubles are behind the company, and that the stock price is way undervalued. In fact, Mr. Spracklin put a price target of US\$3.50 on Bombardier, implying about 40% upside.

Not long after Mr. Spracklin's note, Bombardier announced yet another delay for the CSeries. Now, the company doesn't expect the planes to be delivered until 2016. Does this throw a wrench into Mr. Spracklin's thesis? Or is there still tremendous upside? We take a look below.

Not as serious as before

First of all, there's no need to panic. Bombardier still plans to get the plane certified this year, but "entry into service is more in the hands of the customers," as put by a company spokeswoman. So, this setback is really only a matter of weeks, rather than months. Mr. Spracklin weighed in too, saying "we would consider that immaterial. The real risk that we are monitoring for is a testing issue that would delay the program more than six months."

If Bombardier's announcement had been made three months earlier, the news probably would have been worse. At that time, the company had serious liquidity concerns; in plain English, there was a worry the company would run out of cash. The company must repay US\$750 million of debt in early 2016, and this was looking like a challenge, especially with a CSeries delay.

Since then, however, Bombardier has raised US\$2.4 billion in debt and equity, so those liquidity concerns are gone (for now).

Still reason to worry

As an investor, I always like to see companies under-promise and over-deliver. When this approach is taken, setbacks are more manageable because original goals can still be met.

Right from the start, Bombardier has taken the opposite approach by setting very ambitious delivery

dates. I can see why the company might think this is a good idea—airlines might be more inclined to place orders if the (anticipated) waiting period is shorter.

That said, this approach by Bombardier has led to one delay after another. Given what's happened, I can't help but wonder if the worst really is behind us.

Bigger problems long term

Bombardier's delays have had another bad side effect. It's given larger rivals such as **Boeing** and **Airbus** time to catch up. Both have re-engined their aircraft, and have been offering heavy discounts to undercut the CSeries. Airbus has been especially aggressive.

This is why CSeries orders have been disappointing thus far, and it's probably the biggest risk to Mr. Spracklin's thesis. At this point, I would still avoid Bombardier shares. Even though the stock price seems really low, it may not have bottomed out just yet.

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1. Investing

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1. Editor's Choice

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1. NYSE:BA (The Boeing Company)
2. TSX:BBD.B (Bombardier)

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Author

bensinclair

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