



3 Reasons Why Bombardier Inc. Shares Could Double

Description

It's been a turbulent ride for shareholders of **Bombardier Inc.** ([TSX:BBD.B](#)).

The troubled maker of planes and trains has been in the dumps for years. After shares temporarily hit \$7 each in 2011, it's been a long, painful ride downwards. Investors have shunned the company for a number of reasons, including a debt load that's too high, management's seemingly constant missteps, and because of the giant elephant in the room, the troubled CSeries line of business jets.

The company recently announced the latest delay in bringing the CSeries to market, this time pushing the delivery date into 2016. Unlike the last two times the company announced similar delays, this time the market took the news in stride, only sending the stock down a couple percent. It's obvious that investors are beginning to lose faith that the CSeries will ever be the big deal management expects.

If you combine the CSeries delays with the company's bloated balance sheet, the recent management shakeup, and the terrible recent quarterly results, there seems to be little reason to be bullish on this stock. But once you dig a little further, there are actually some things to get excited about.

Upcoming catalyst

Value investors aren't just on the prowl for cheap stocks. Ideally, there's also an upcoming event that will potentially be viewed by investors as a huge positive, thus unlocking value. Bombardier's management is currently working on such an event.

The company is currently in discussions to either sell its train division or to spin it off as an IPO. Sure, the train division is low-margin and not nearly as sexy as building planes, but it's a steady business that has remained solidly profitable throughout the whole CSeries disaster.

In 2014 the train business earned approximately \$530 million before interest and taxes. At a 10 times EBIT valuation, the train business itself is worth more than \$5 billion of Bombardier's \$6 billion market cap.

This begs the question—just how much is the aircraft division worth? Before restructuring costs,

interest, and taxes, the air division earned about \$350 million last year. Yes, it's being dragged down by the CSeries, but the rest of the aircraft division isn't doing so badly. It's certainly worth more than \$1 billion.

Diminishing bankruptcy risk

When the company announced poor results in January—including some massive write-offs—the market started treating the company like bankruptcy was a real possibility. I think the chances of the company going under are almost zero.

First of all, the 2016 debt coming due will be paid, replaced by US\$2.25 billion in long-term debt raised in March. Additionally, the company raised more than \$1 billion in equity. That new capital, plus the nearly \$3 billion of cash on the balance sheet, should be enough to make it through the storm.

But even if it isn't, the company has a lender of last resort with deep pockets: the Quebec provincial government. Legislators aren't about to let one of the province's shining jewels go into bankruptcy protection.

A change in sentiment

One thing about the stock market investors have to understand is how shares will overshoot in both directions based on market sentiment.

Right now, everyone is negative on Bombardier. Investors have shied away because of the delays in CSeries. Analysts have soured because of the debt, which is now flirting with \$10 billion. It's really hard to find anybody who is actually buying the stock.

Which, ironically, is a pretty compelling reason to like the stock. Not just because everyone is bearish on the company, but because that bearishness has likely pushed down shares below their intrinsic value. It creates a scenario where there's little in additional downside risk and plenty of upside potential.

If the company can actually set a firm date for CSeries deliveries and successfully spin off the rail business, I think shares could double from these low levels. There's a lot of risk in this stock, but there's a lot of reward too.

CATEGORY

1. Investing

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