



Is Bombardier Inc. Too Cheap to Ignore?

Description

By now, I'm sure everyone has heard the bad news coming from **Bombardier Inc.'s** ([TSX:BBD.B](#)) business jet unit.

To sum it up should take more than a paragraph, but we'll try to condense it. Essentially, the company has suffered from years of delays, cost overruns, and overconfidence. To help right the ship, the board has taken several steps including shaking up the management team, laying off thousands of employees, and raising billions in cash needed to finish the CSeries line of business jets.

For bears, all these issues have made it very easy to avoid the stock. Who wants to invest in a company with a history of missing projections all while drowning in a sea of debt?

But for bulls, there's an argument to be made that the company is almost too cheap. As we all know, investors tend to overreact in the short term, which creates long-term opportunities. Is Bombardier one of those companies where the market is overly pessimistic? Let's take a closer look.

Rail spin out

One plan announced by the company was to either sell or spin out its rail division, the steady performer almost gets forgotten amid all the news from the CSeries line. A couple of weeks ago, an official announcement was made that the rail division would begin trading in the fourth quarter, likely in Frankfurt.

Bombardier Transportation is one of the world's largest suppliers of subway cars, streetcars, and other public transport vehicles. It's also solidly profitable, earning \$526 million before interest, taxes, and special items in 2014. Revenue for the year was approximately \$2 billion.

Currently, the entire company has an enterprise value of approximately \$9.5 billion. If you combine EBIT from the rail and business aircraft divisions, the company has the ability to earn more than \$1 billion annually, even without any earnings from CSeries. That's not a bad valuation.

CSeries potential

Although the CSeries line has been terrible in almost every way, there are still positives coming from the project. In particular, there are still a lot of orders on the books for jets, with more undoubtedly coming once customers can see the new jet in action.

Currently, customers have placed 243 firm orders for CSeries Jets, with options to order 162 more. If we assume a 50% option pickup and an average order price of \$65 million per jet, Bombardier is sitting on more than \$21 billion in CSeries orders alone. Assuming a 5% margin, that's more than \$1 billion to the company's bottom line. To put that in perspective, the company generated \$847 million from cash in all of 2014.

Investors are focused almost exclusively on the fact that the CSeries has been bungled, while forgetting that it's actually a pretty good plane. It's hard to get \$21 billion in orders if the plane is terrible.

Cash crunch averted

When Bombardier came out and warned us about its fourth quarter results back in January, investors were concerned the company would run out of cash before the CSeries was completed. Since that warning, the company has raised billions in new cash, using a combination of debt and new equity.

Although the company's debt has now ballooned to more than \$9 billion, most of it isn't due for years. That gives management plenty of breathing room to actually start delivering jets to customers, starting with Swiss Air in 2016. Plus, cash on the balance sheet is currently close to \$5 billion.

Investors also should know that the Quebec provincial government strongly hinted it would bail out Bombardier in the event of a real liquidity crisis. Although that looks unlikely after this last round of financing, it's still a nice assurance for skittish investors.

If everything goes to plan and the CSeries actually starts contributing to the company's bottom line in 2016, investors should see a nice return from today's depressed levels. At this point, investors are getting the CSeries line for practically nothing, even though it has the ability to materially add to the bottom line as early as next year. Yes, Bombardier is risky, but at today's levels, I think it offers a good reward for investors willing to stomach that risk.

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