



## Bombardier Inc.: This Turnaround Has Massive Potential

### Description

The troubles of **Bombardier Inc.** ([TSX:BBD.B](#)) are well known.

Mostly, they have to do with the CSeries, the company's regional jet program. Bombardier continues to pour money into the program, hoping to begin delivering planes to customers by early 2016. Remember, this delivery date has already been pushed back twice, much to the disappointment of shareholders.

There's also the issue of having to compete with two giants in the regional jet program, **Boeing** and **Airbus**. Sure, Bombardier has "a nice little plane" as the CEO of Airbus put it, but airline customers really don't have a lot of incentive to switch away from popular Boeing and Airbus models. It's simpler for an airline to stick to one model of plane as well.

And finally, there's Bombardier's balance sheet, which continues to be an issue. Yes, the company is sitting on more than \$5 billion in cash, but much of that is expected to be burned over the coming months to get the CSeries program finished. Once all that cash is gone, it'll be difficult to raise more since total debt is more than \$9.4 billion.

Needless to say, there's risk in buying Bombardier at these levels. But there's also a whole lot of potential reward. Let's take a closer look at what the company is doing right.

### Unlocking value

Throughout all the headlines and hand-wringing about the CSeries and the aviation division, the transportation division continues to slowly chug along. The transportation division is North America's largest manufacturer of trains, subway cars, and streetcars, with more than \$500 million in earnings before interest, taxes, and special items in 2014 on approximately \$2 billion in revenue. That's a pretty solid business hiding among all the chaos of the regional jet program.

Management realizes this and is taking steps to unlock some value from the transportation part of the company. An IPO is scheduled for some time later on in the year, where the company is expected to sell off approximately 20% of the transportation division to investors on the Frankfurt stock exchange.

Here's the interesting question: what's the transportation division worth? If it can be expected to earn \$500 million in EBIT annually, valuing it at \$5 billion isn't an outrageous sum. The market cap of the entire company right now is approximately \$5.5 billion, which just goes to show how bearish investors are on the CSeries.

### **CSeries potential earnings**

Currently, Bombardier has 243 firm orders for CSeries jets, with existing customer options for an additional 162 planes. The company also has commitments for 108 planes, with options for an additional 60 jets.

Let's be conservative and just assume the company gets the 243 firm orders, as well as just half the options for an additional 81 planes. No commitments will be honoured.

We'll assume a purchase price of US\$68 million per plane, and then a 5% margin once expenses are paid. Just how much in CSeries earnings can be expected to flow to the bottom line?

Total revenue would be US\$22 billion, which converts to approximately \$27 billion Canadian. At a 5% margin, the bottom line would be between \$1.3 and \$1.4 billion. That's pretty substantial for a stock with a market cap of \$5.5 billion.

### **Even a good value now**

Throughout all of these issues, many investors have missed an important point. If you exclude one-time items and write-offs, Bombardier has actually remained consistently profitable.

Just look at the company's last quarter for confirmation. The company earned a dime per share, easily beating analysts' estimates of \$0.07. For 2015, analysts think the company can earn nearly \$0.30 per share, which puts it at just 8.5 times forward earnings. That's cheap, especially considering the CSeries earnings that will start to flow to the bottom line as early as 2016.

There's no doubt Bombardier is a risky stock. It has a mountain of debt and a history of disappointing investors. But those issues have also made shares very cheap. Investors who get in now are looking at huge potential upside, assuming the new management team can deliver.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

**Category**

1. Investing

**Tags**

1. Editor's Choice

**Date**

2025/07/08

**Date Created**

2015/06/25

**Author**

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