



Are Bombardier Inc. Shares the Opportunity of the Decade?

Description

At least in my mind, there's little doubt that **Bombardier Inc.** ([TSX:BBD.B](#)) shares are undervalued, even after factoring in all of the company's problems.

The issues are two-fold. Firstly, the company's CSeries regional jet program has been nothing short of a disaster. Deliveries of the jets have been pushed back twice now and is on pace to begin sometime in early 2016, at least we think so. And even though the regional jet market has been robust, orders of the CSeries have ground to a halt as nervous customers opt for planes from companies with a better track record of on-time deliveries.

And then there's the liquidity concerns. Back in the winter Bombardier's management raised billions by issuing new shares and long-term debt. The issuance did help the company get past any short-term concerns about running out of money, but over the long term, investors are concerned that its \$5.3 billion cash hoard won't be enough.

Combine these issues with investor frustration, and you get a stock that's currently at a low not seen since the early part of the 1990s. Shares trade hands at just \$1.90 each, a far cry from the \$4 level of a few months ago, or when they surpassed \$7 each in 2011.

But among the bad news is a company that's poised to turn itself around, with a potential doubling or even tripling of the stock price being possible. Just how can management make that happen?

All in on the CSeries

In Texas Hold-Em poker, moving all in is a risky strategy, but one with huge potential if the gamble pays off. At this point, Bombardier shares are very similar.

All the bad stuff surrounding the CSeries program has effectively drowned out the good news. Remember, the company has already got firm orders for 53 of the smaller CS100 model, as well as 190 commitments for the larger CS300 model. Based on a US\$65 million price tag per jet, that's nearly US\$16 billion in the company's backlog.

There's more. With those orders are various options, purchase rights, and commitments. All told, these expressions of interest give customers the right to order more than 300 additional jets. To be conservative, let's assume only 100 of these options will be exercised for an additional US\$6.5 billion in revenue.

Assuming 5% operating margins on those sales and the current Canadian-to-U.S. dollar exchange rate, the company stands to make \$1.4 billion in earnings before interest and taxes from the orders it already has. And if everything goes to plan, customers will see the planes in action and more orders will come flooding in.

Bankruptcy is unlikely

Although many investors are convinced Bombardier is on the verge of bankruptcy, I think these fears are overdone.

At this point, most of the heavy lifting for the CSeries is done. Management has confirmed that capital spending on the program will start to trend down, especially as we enter 2016. Combine that with getting revenue from completed jets, and the liquidity situation doesn't look so bad.

There's also the upcoming transportation IPO, which is expected to list in Germany by the end of the year. Nobody knows how much the offering will be worth, but it could easily top \$2 billion. Plus, there are no major debt repayments due until 2018. Management has done a nice job giving themselves time to execute the turnaround.

Valuation

It might come to a surprise to many, but analysts are expecting Bombardier to be solidly profitable as it makes it through this transition period.

Earnings are expected to be \$0.28 per share in 2015, with a slight decrease in 2016 to \$0.21 per share because of less ownership of the more profitable transportation side. Those are among the cheapest forward earnings ratios on the TSX Composite.

There's also the potential for earnings' surprises, especially if the CSeries production gets rolling. Once investors become convinced bankruptcy is off the table, good news will become more magnified, which could send shares soaring. It's really all about sentiment.

Bombardier is a risky stock, especially if the CSeries program stumbles again. But there's also a huge amount of potential as bearish investors have hammered the stock below intrinsic value. If management can turn things around, huge rewards likely await those who got in when the future looked darkest.

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Author

nelsonpsmith

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