



Why Did Bombardier Inc. Sink Another 7%? And Is It a Bargain Yet?

Description

Not much has gone right for **Bombardier Inc** ([TSX:BBD.B](#)) over the past few years. Its main problems have revolved around the CSeries jet program, which have incurred multiple delays and cost overruns. Worse still, the CSeries remains well short of Bombardier's order goal, with practically no momentum either. The program has impacted other parts of Bombardier's business too – the company has already suspended its Learjet 85 program and put other business jet initiatives under review.

On Wednesday the news got even worse, and the stock fell as much as 18% in response. As of this writing, the shares have recovered somewhat, but are still down by more than 7% for the day. This is the lowest that Bombardier has traded since August 1993. To put this in perspective, Kim Campbell was Prime Minister at the time.

So why have Bombardier's shares sunk this time? And more importantly, is this your opportunity to step in? Below we take a look.

A weak market

The CSeries may be getting all the headlines – including here at The Motley Fool Canada – but Bombardier's fortunes are still largely tied to the business jet market. Unfortunately that market appears to be slumping.

While reporting Q2 2015 results, **B/E Aerospace Inc.** ([Nasdaq:BEAV](#)) CEO Werner Lieberherr said that the business jet market has been "weak" this year. Energy-producing companies and governments are dialing back their spending plans in response to low energy prices, putting a big dent in demand. Even worse, struggling countries like China and Russia are putting their used business jets on the market, as are many countries in Latin America.

This does not bode well for Bombardier's prospects, and the stock has reacted in kind. At this point, many investors have likely given up altogether.

So how cheap are the shares?

At \$1.65 per share, Bombardier is valued at \$3.2 billion, or US\$2.4 billion. When adding net debt, Bombardier's enterprise value totals US\$7.6 billion.

From there, one can deduct about US\$5 billion for Bombardier Transportation (we'll find out a more precise number when BT goes public). So that leaves a valuation of \$2.6 billion for Bombardier Aerospace.

This seems like a bargain for Bombardier Aerospace, which made close to \$500 million in pre-tax income just last year. There's even more upside if Bombardier can realize any value from the C-Series.

So is this a screaming buy?

Not yet. Bombardier may be undervalued based on a lot of measures, but there's a reason for this. The company is clearly struggling, and it's weighed down by a mountain of debt. The new revelations indicate the environment won't be getting any easier.

So at this point, I would wait for Bombardier to show some signs of improvement. You'll probably miss out on some upside by doing this, but the shares should still be undervalued even if the company takes some meaningful steps. Until then, the risk is just too great.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/07/21

Date Created

2015/07/23

Author

bensinclair

default watermark