Is Bombardier Inc. Finally too Cheap to Pass up?

Description

With all the bad news that **Bombardier Inc.** (TSX:BBD.B) has delivered this year, shareholders must have developed some sort of immunity by now.

The latest negative update came on Thursday, when Bombardier announced results for the second quarter of 2015.

Another delay

While announcing earnings, Bombardier announced that its Global 7000 business jet will enter into service in the second half of 2018, two years later than previously scheduled. A delay was widely expected by the investment community, but this announcement was still a big setback for the company. This follows the suspension of the Learjet 85 program back in January.

These decisions were made because Bombardier needs to conserve cash. The company burned through US$1.6 billion just in the first half of this year, and has only US$4.4 billion of short-term capital left.

The big reason for this cash burn is the CSeries, which is still scheduled for certification in the second half of the year. So, with the delay of the Global 7000, Bombardier is effectively going all-in on the CSeries.

At this point, Bombardier may have no other options. But the company is clearly cutting the flowers while watering the weeds. It's no wonder investors are so disappointed.

A lack of orders

If that wasn't bad enough, Bombardier is suffering from a lack of orders. In the most recent quarter, its book-to-bill ratio was just 0.2 for both its corporate and commercial jets. Put more simply, for every five jets the company is delivering, it's only winning one new jet order.

Once again, investors didn't have high hopes to begin with. **B/E Aerospace** CEO Werner Lieberherr already said the business jet market has been “weak” just a few days earlier. But a 0.2 book-to-bill ratio is especially poor.

Was there any good news?

There were a couple of bright spots for Bombardier in this earnings report. First of all, the company slightly beat analyst estimates with US$0.06 in adjusted earnings per share off of US$4.6 billion in revenue. Secondly, new CEO Alain Bellemare has introduced a cost-reduction plan, one that should lead to “significant” savings. After so many years of mismanagement, there’s certainly plenty of fat to be cut.

Should you buy?

Bombardier’s shares plummeted on Thursday, leading to a very obvious question: is this the time to step in?

I would hold off for now. The shares may appear cheap, but as long as the company is struggling like this, there’s just too much risk.

But if Mr. Bellemare is able to turn the company around, the shares will likely still be cheap enough. That would be a much better time to step in.

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