



## When Is the Right Time to Buy Bombardier Inc.?

### Description

**Bombardier Inc.** ([TSX:BBD.B](#)) is once again dominating the headlines, and just like before, it's for all the wrong reasons.

The company recently released its results for the second quarter of 2015, and they were very disappointing across the board. Orders were weak, the Global 7000 project is being delayed, and cash is being burned at an alarming rate. This adds to the problems we already knew about with the CSeries jet program.

As a result, the stock price has gotten crushed, nearing lows not seen for more than 20 years. So, does that mean you should buy the stock today?

### A discount on a sum-of-the-parts basis

Bombardier may be struggling, but its shares have likely overreacted to all this bad news. To illustrate, the current share price implies about a US\$3.7 billion valuation for Bombardier's aerospace businesses, which made about US\$500 million in pre-tax earnings last year. Bombardier has also spent far more than that on the CSeries.

Clearly, there is an opportunity brewing, but some serious questions remain. One, can the CSeries be developed without any more delays? Two, can Bombardier survive without raising any more capital?

If the answer is "no" to either question, then there's still plenty more downside for this stock. That alone makes it too risky at this point.

### The air will be clearer in six months

By the beginning of next year, there should be a lot more clarity surrounding Bombardier for a couple of reasons.

First of all, the CS100 should be certified by then. This could easily lead to increased orders for the plane, and should lead to much higher free cash flow. Better yet, if Bombardier wants to sell the

CSeries jet program to a rival company—as I’ve argued should be done—then this should be easier once the CS100’s flight testing is complete.

Second of all, we will have better visibility of Bombardier’s latest cost-cutting efforts at that time. The company announced a cost-cutting plan with its latest quarterly results, but couldn’t even provide a number. Hopefully that will change.

### **What should you do?**

There’s a good chance that Bombardier will be in much better shape in six months. Yet even if this happens, I doubt its share price will respond very meaningfully. Many investors have given up on the company entirely, and are unlikely to jump back in, even if meaningful improvements are made. This could result in a golden opportunity for the rest of us.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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