



Is Bombardier Inc.'s Stock Really Headed to \$1?

Description

A recent analyst report suggests shares of **Bombardier Inc.** ([TSX:BBD.B](#)) could trade for just a loonie.

Konark Gupta, an analyst at Macquarie, slashed his 12-month target on Bombardier from \$1.75 to a just a buck, citing a possible cash crunch as early as 2017.

Is he right?

Raising funds to stay alive is not a new situation for Bombardier. Earlier this year, the company sold close to 490,000 shares at \$2.21 per share to raise net proceeds of about \$1.1 billion (US\$868 million). The company also issued US\$2.25 billion in new debt.

Bombardier used part of the funds to redeem US\$750 million in debt that would have come due in early 2016. The rest of the money has been allocated to help the company get its struggling CSeries jet program into commercial operation.

Cash burn continues

In its Q2 2015 earnings statement Bombardier said it spent US\$808 million during the second quarter. That's on top of the US\$745 million the company spent in Q1. At the current burn rate Bombardier will go through more than US\$3 billion in 2015 and could face another cash crunch as early as next summer.

The company finished Q2 with just US\$3.1 billion in cash and cash equivalents and about US\$1.3 billion in short-term capital resources.

Bombardier is planning to sell part of its transportation division through an IPO later this year. If all goes well, analysts believe the company could bring in another US\$1-1.5 billion, and that would help buy some time, but the company is still headed for cash-flow troubles again in 2017 unless its CSeries customers start taking delivery in 2016.

Jet delays

Bombardier says it is on track for the CSeries to go into commercial service in the first half of 2016, but investors can be forgiven for remaining skeptical, given the extended delays to date.

The company's business jet division has traditionally been very lucrative, but it too is losing altitude. Bombardier paused its Learjet 85 program earlier this year and recently announced its highly anticipated Global 7000/8000 planes will be delayed by two years due to development "challenges."

Stock price woes

A year ago Bombardier's stock traded for \$3.75 per share. At the time of this writing, the price is below \$1.60.

Investors who paid \$2.21 for the new shares back in February aren't very happy right now, and Bombardier will have to dilute shareholders much more if it has to raise funds again in the next 12 months.

At this point, a drop to \$1 per share looks like a pretty harsh call, but there are so many uncertainties that any further bad news could cause some of the last holdouts to finally throw in the towel.

Where's the upside?

The expectations are so low right now that good news of any sort could send the stock rocketing higher. A new CSeries order, better-than-expected progress on the CSeries launch, or strong demand for the transport-division IPO could all cause the stock to take off.

At this point, the name still looks too risky and I would avoid it until clear signs of a turnaround are underway.

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