Why Bombardier Inc. Shares Could Take Off in 2016

Description

As we all know, 2015 has been a nightmare year for **Bombardier Inc.** (TSX:BBD.B). The company has delayed two business jet programs, it has burned cash at an alarming rate, and it has secured no new orders for the CSeries. Rating agencies have taken notice and have downgraded Bombardier's debt. To top it all off, the company's share price has reached multi-decade lows.

The news could easily get a lot worse. With US$6 billion in net debt and an alarming cash-burn rate, bankruptcy could easily be in the company's future. So, for now the shares remain too risky to buy, even at this seemingly bargain price.

But in 2016 there may be a golden opportunity to buy the company's shares. We look at three reasons why below.

1. More options for the company

Bombardier is focused on two objectives for the remainder of 2015. First, the company hopes to get the CS100 plane certified. Second, it hopes to divest 20% of Bombardier Transportation (BT) through a public listing.

Both of these initiatives should give Bombardier more options in 2016. Regarding the CSeries, the program could potentially be sold to a rival. Such a move would likely be prudent, since it would allow the company to pay down its debt and focus on what it does best.

Likewise, the public listing of BT will make it easier to offload the division entirely. Perhaps Bombardier will want to sell the rest of the division to the public. Or maybe a competitor will make an offer. Either way, the public listing helps set a valuation, which should make the decision-making process a lot smoother. And once again, divesting BT would provide some much-needed cash.

2. Improving cash flow

Through the first six months of 2015 Bombardier's free cash flow usage exceeded US$1.5 billion. This is an incredibly scary number, especially for a company with just US$3 billion of cash left on its books.

But Bombardier should be able to make it through 2015. The company has an extra US$1.3 billion in borrowing capacity from a credit line, and will likely raise another US$1 billion through its BT listing.

Then in 2016 airlines will start making big cash payments for CS100 deliveries. And, of course, Bombardier will no longer have to spend big bucks getting the CS100 certified. This should give the company a lot more breathing room.

3. A crushed share price

If Bombardier is able to make it through this year without any more CSeries delays, its shares will likely rebound. But with a stock price of $1.31, there's plenty of upside left.

To put this in perspective, net debt stands at US$6 billion, but BT is reasonably worth US$5 billion. So, if the CSeries program is even worth half what Bombardier spent on it, you get the rest of the company almost for free. If CEO Alain Bellemare sells either BT or the CSeries program, this value could easily surface. But you'll have to wait until 2016.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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