



## Why Bombardier Inc. Is a Better Bet Than Any Oil Producer

### Description

As oil prices continue to plummet, many investors are betting on an eventual rebound. After all, many producers are losing money at the current price. Ideally, this will lead to a fall in production. And if an oil company is able to survive the bloodshed, eventually its share price will increase. Or so the thesis goes.

But there's an even better way to make this bet: **Bombardier Inc.** ([TSX:BBD.B](#)). We take a closer look why below.

### What makes Bombardier a bet on oil?

As we all know by now, Bombardier's problems have mainly revolved around its CSeries program. Not only has the CSeries encountered delays and cost overruns, but orders have fallen short of expectations, too.

One big reason for the shortfall has been the low price of oil, which diminishes the CSeries's fuel efficiency advantage over comparable aircraft. It has allowed rivals such as **Airbus Group SE** and **Boeing Co.** to keep the CSeries on the sidelines by discounting their own planes. It's no coincidence that the most recent order for the CSeries came when the WTI oil price was last above US\$95 per barrel.

If oil does recover, Bombardier will benefit handsomely. This puts the company in a similar position as the producers.

### Why is Bombardier a better bet than the oil producers?

Despite the recent fall, energy still makes up about 20% of the **S&P/TSX Composite** index. And for that reason, many portfolio managers are required to hold at least some energy names, even if they don't want to.

Consequently, energy stocks aren't being sold off as quickly as they should be, helping to sustain their prices. Thus, many energy stocks are already pricing in a fairly robust oil recovery.

Of course, this isn't the case at all with Bombardier. Portfolio managers have no obligation to hold the name, and may even face pressure to sell the stock. After all, it's difficult to explain to clients these days why Bombardier is in their portfolio.

### **A look at the numbers**

When looking at Bombardier's situation, it's clear the investment community has given up all hope.

To illustrate, the company has US\$9 billion in debt, but it also has US\$3 billion in cash. And its transportation business could likely be sold for US\$5 billion. So, the company very easily could get its debt under control. If that weren't enough, Bombardier could also raise some cash by selling its CSeries program to one of its rivals.

When adding up all the pieces, the company seems to be worth far more than its \$3 billion market valuation. And with a new CEO in place, the company may be more willing to unlock all this value.

In any case, there's much more upside in Bombardier than in any oil company. If you have any confidence in oil prices, the company looks compelling at its current price.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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