



## Has Bombardier Inc. Finally Found its Bottom?

### Description

**Bombardier Inc.** ([TSX:BBD.B](#)) just dropped another 14% and came spectacularly close to hitting the ominous \$1.00 per share mark. The company has fallen so far, so fast that some contrarians are now thinking the sell-off is way overdone, despite the dismal situation.

Let's take a look at Bombardier to see if the company finally deserves to be a contrarian pick.

### Stock slide

Bombardier hit a low of \$1.03 per share on August 24. Bargain hunters moved in at that point and the stock made it back up to \$1.11 by the end of the day. The stock is down a nasty 38% in just the past four weeks and off 70% since this time last year.

Earlier this month, an analyst at Macquarie lowered his 12-month target for Bombardier from \$1.75 per share down to \$1.00. At the time the stock still traded near \$1.60 per share and the call was considered to be a bit drastic.

Now, just three weeks later, it seems it might have been too conservative.

### Serious questions about the CSeries

Bombardier's shares enjoyed a mini rally last week on news the CS100 has completed 80% of its required testing to receive certification. The company's announcement sent a glimmer of hope into the market that the beleaguered jets might actually go into service before the middle of next year.

Considering the program is already more than two years behind schedule and least \$2 billion over budget, any news that isn't bad news is great news.

The stock initially popped from \$1.17 to above \$1.35 per share at the end of last week, but quickly gave all the gains back on Monday.

Getting the jets ready for delivery is just one part of the puzzle. The other issue is a lack of demand for

the planes.

After the flood of orders that came in when the CSeries program was initially announced, interest in the jets has slowed to a trickle. In fact, the company hasn't had a new order in almost a year.

Bombardier initially hoped to have 300 firm orders by the time the planes were ready for delivery. The current tally is 243 and one report suggests as many as 100 of those might be delayed or never delivered.

### **Cash burn**

Bombardier is burning through its cash pile at supersonic speed, and that has pundits worried that the company will have to go to the market again.

Earlier this year Bombardier managed to get investors to cough up \$2.21 per share for a \$1 billion equity issue. The company also raised another \$2.25 billion in the debt market.

Management plans to sell off part of the transport division in an IPO this fall. Some analysts believe the spinoff could fetch US\$1-1.5 billion. That would help the company navigate through the first part of next year, but it probably won't be enough to avoid balance sheet trouble unless Bombardier gets the first CS100s delivered earlier than expected.

Bombardier is on a burn rate of about US\$1.5 billion every six months. The company finished Q2 2015 with \$US3.1 billion in cash.

Raising extra funds through another stock sale will be brutally dilutive for existing shareholders, and the debt market might not even be an option given the fact that the company's existing US\$8.9 billion in outstanding debt was recently downgraded.

### **Should you take a flier on the stock?**

A fabulous turnaround could still be in the cards, but it would be best to wait for the next round of funding to get sorted out before booking a seat on this troubled flight.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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aswalker

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