Bombardier Inc. Looks Cheap, But Is it a Buy?

Description

Shares of **Bombardier Inc.** (TSX:BBD.B) are catching a bit of a tailwind after plunging to lows not seen in decades. The move looks encouraging, but many investors are still not sure if the stock has finally bottomed. Let's take a look at the current situation to see if you should add Bombardier to your portfolio.

Jet troubles

Most of the pain over the past few years can be attributed to Bombardier's struggling CSeries commercial jet program. Back in 2011 the company had firm orders for more than 90 jets and was well on its way to hitting the initial target of 300. The first planes were supposed to be delivered and in service by 2013. Buyers continued to line up until it became evident the project had to run into serious difficulties.

Today, Bombardier has 243 firm orders for the CSeries, but it hasn't signed a new deal in almost a year. With the program now more than two years behind schedule and $2 billion over budget, analysts are wondering if the CSeries project will survive. One report suggests as many as 100 of the ordered planes might never be delivered, and the weakening outlook for the global economy is threatening to derail future sales.

Bombardier's specialty has always been business jets, but that division is also going through some turbulence. Earlier this year Bombardier halted its Learjet 85 program, and recently announced a two-year delay in the roll-out of its much-anticipated Global 7000 business jet.

If things weren't bad enough, it looks like competition is about to heat up in the business jet space. **Mitsubishi Aircraft Corp.** recently announced it is making good progress on its first small passenger jet that will compete directly with Bombardier.

Cash burn

Bombardier is burning through cash at a fantastic rate. In fact, the company already spent more than $1.5 billion in the first half of 2015. As of June 30, Bombardier had just $3.1 billion in cash on its balance sheet, so it will probably have to raise funds again in the near future.

Earlier this year the company managed to sell $1 billion in new stock at $2.21 per share and another US$2.25 billion in debt. Bombardier’s existing US$8.9 billion in long-term debt has already been downgraded, so the debt market might not be a viable option to raise more money. Selling stock again will be extremely dilutive to existing shareholders.

Bombardier is planning to sell part of its transport division in an IPO. Analysts believe the sale could bring in US$1-1.5 billion. That would help get the company through the first part of 2016, when it is expected to finally deliver its first CSeries jets.

Is the stock a buy?

Bombardier might pull out of the swan dive and soar to new heights, but a lot of things would have to go right in a very short period of time. Given the current outlook for the market and the company’s track record over the past few years, it might be best to stay on the sidelines until the first CSeries jet is actually delivered and paid for.

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