



## Bombardier Inc.: This Turnaround Story Is Just Beginning

### Description

Something interesting has happened with **Bombardier Inc.** ([TSX:BBD.B](#)) shares over the last couple of days.

On Tuesday, shares closed the day of trading at \$1.19 each, slightly higher than recent lows that represented the company's lowest price in almost three decades. The market was worried about the same thing the market has worried about for months—namely, Bombardier's ability to stave off bankruptcy.

On Wednesday, shares opened sharply higher, finishing the day at \$1.46 each. That's a return of more than 22% in just one day, one of the best performing days in the company's history.

Thursday is shaping up to be another great day for the beleaguered maker of CSeries planes, with shares surging another 15.75% in midday trading. Volume is huge as well, with 20 million shares exchanging hands in just half the trading day. Normal volume for a whole day is about half that, or just over 11 million shares.

Shares are surging for one big reason. On Wednesday, news outlets reported that a Chinese company offered Bombardier between US\$7-8 billion for its rail unit, an offer that was quickly rejected by Bombardier's management, which has planned to spin out a portion of the unit to the German stock market for months now, choosing to extract value from the more steady transportation division that way.

The big reason why shares surged was the US\$8 billion price tag was much higher than what analysts had previously valued that part of Bombardier's business. It's now easier for the company to aggressively price its IPO of that division when it finally happens later on this year. A better price means more cash for Bombardier's coffers, which is obviously good news for a company that can use all the cash it can get.

But does this one piece of news mean investors should believe Bombardier's turnaround is for real?

### There's still CSeries problems

Although Bombardier has plenty of CSeries orders in the pipeline to keep workers busy for at least a couple of years after it finally starts delivering jets in 2016, getting new orders has been a tough hill to climb thus far in 2015. Customers are dissatisfied with the constant delays, and rival planes from **Boeing** and Airbus are popular with customers. Many see little reason to switch to unproven CSeries models—at least until they can see them in the sky.

Additionally, some of Bombardier's other planes aren't selling well as factors, like the weakening economy in China, are causing sales of its business jets to slump. Weakness in the energy market isn't helping orders from the Middle East either.

For Bombardier's turnaround to get any serious momentum, the company must start delivering jets to customers. It's a whole lot easier to sell planes when customers can see them in action.

### **Huge potential**

It's important for investors to remember that Bombardier was profitable as recently as 2013, and would have eked out a small profit in 2014 if it wasn't for write-offs. In 2013, the company earned \$0.31 per share. And that's without any revenue from CSeries planes.

Plus, I think the chance of bankruptcy is remote. Bombardier was still sitting on more than US\$3.6 billion in cash as of June 30th, and should be able to raise at least US\$1 billion by spinning off part of its rail division, especially if the market will give it a US\$8 billion valuation for the whole thing. And if it needs a short-term cash infusion, the Quebec government has already pledged to help.

Once it starts getting revenue from CSeries planes, the cash drain is likely to turn into positive cash flow. With the CSeries division actually contributing to the bottom line, the company can finally turn its focus to paying down debt and getting its balance sheet into better shape. That should translate into nice gains in the share price.

Bombardier still has work to do to dig itself out of this hole. But as the last couple of days have shown investors, there's huge potential on the upside for any positive surprises. If management can execute, there could be plenty more where that came from.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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### **Author**

nelsonpsmith

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