



## Shares of Bombardier Inc. Take Off: How Long Will the Flight Last?

### Description

**Bombardier Inc.** ([TSX:BBD.B](#)) soared more than 50% last week, and contrarian investors are wondering if this is the start of a recovery or just a brief rally propelled by short covering.

Let's take a look at the current situation to see if the rebound could continue.

#### Valuable transport business

The rally started when news hit the market that management recently turned down an offer from a Chinese state-owned company to buy 100% of Bombardier's transport business. The reported price was as high as US\$8 billion.

Bombardier is already planning to sell part of the rail division in an IPO because it needs funds to get its beleaguered CSeries jets certified and delivered to customers. Ideally, the spin-off will provide enough extra money to get Bombardier through the last few critical months and avoid another expensive foray into the capital markets.

Most analysts had put a much lower value on Bombardier's transport business, so the report really lit a fire under the stock.

The likelihood of Bombardier selling the entire division to the Chinese is pretty much nil. Do you really think the Canadian government would allow the Chinese government to effectively own Bombardier?

There would be other issues from the sale. Bombardier is a huge employer in Quebec, and fears about job security would also make it almost impossible for management to do the deal.

The good thing for Bombardier, and this is probably why the information was made available in the first place, is that the company should be able to price the upcoming IPO at a higher price than it might have before the news broke.

#### Cash concerns

Bombardier is bleeding cash at a fantastic rate. The company blew through \$1.5 billion in the first half of 2015 and only had \$3.1 billion left at the end of the second quarter.

The transport IPO is expected to bring in US\$1-1.5 billion, and that will help the company get through the first part of next year, but it might not be enough, especially if the first CSeries planes don't get delivered on time.

### **CSeries troubles**

The CSeries program is already more than two years behind schedule and at least \$2 billion over budget. As the stock rallied on news about the rail unit bid, Bombardier conveniently announced the CSeries is on schedule to meet its current delivery target. That gave the stock another shot and almost pushed it back to \$2.00 per share.

### **Should you buy the stock?**

Nothing has really changed in the past week. The company hasn't signed any new CSeries orders, it didn't actually sell part of the transport division, and it simply reiterated its expectations for a 2016 delivery of the first CSeries planes.

Until something concrete actually happens that indicates the company has finally turned the corner, investors should probably stay on the sidelines.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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