



Bombardier Inc: Should You Buy the Rally?

Description

Shares of **Bombardier Inc.** ([TSX:BBD.B](#)) are up 50% in the past week, and investors are wondering if the recent spike is the start of a much bigger recovery.

Let's take a look at the current situation to see if Bombardier deserves to be in your portfolio.

CSeries situation

Most of Bombardier's woes are connected to the problems the company has encountered with its CSeries jet program. Bombardier embarked on a journey to build the fuel-efficient planes with much fanfare, and early sales of the new jets looked promising. Then cracks started to appear in the development process and things have gone off course ever since.

Today, the company has 243 firm orders for the jets, well short of the 300 Bombardier is targeting before the first planes go into service.

Part of the slowdown in orders is connected to lengthy delays. The CSeries is more than two years behind schedule, and many carriers are taking a wait-and-see approach before committing to the plane. That might be an understatement considering the fact that Bombardier hasn't received a new order for the planes since September 2014.

Development delays have certainly curbed enthusiasm, but another issue could be more concerning.

The CSeries is marketed as a very fuel-efficient plane, and that was a strong selling point when oil prices were \$100 per barrel. Today, the cost incentive to buy the plane is a lot less compelling because the efficiency advantage has been greatly reduced by the drastic drop in fuel prices. Many international carriers are simply opting for older, less efficient models because the numbers make more sense.

This is a big issue for Bombardier and it doesn't look like it will be resolved quickly if fuel prices remain at current levels.

Cash burn

The CSeries program is already \$2 billion over budget and the company is burning through cash at a scary rate.

Earlier this year, management convinced the market to fork over \$1 billion for a new issue of shares at \$2.21 per share. The company also managed to find buyers for US\$2.25 billion in new debt. That move avoided a cash crunch, but the company could find itself in need of funds again before the end of next year.

At the end of the second quarter Bombardier had US\$3.1 billion in cash, but it is burning through the funds at a rate of about \$1.5 billion every six months.

Last week's rally in the stock started when news came out that a Chinese state-owned company had apparently offered Bombardier as much as US\$8 billion for its transportation unit.

Bombardier is planning to sell part of the division in an IPO and analysts had expected the rail unit to be valued at a much lower level.

If the company can get US\$1.5 billion by selling just 20% of the transport group, the cash issue could be solved until Bombardier starts to deliver the new planes.

Bombardier says the CSeries is on track to go into commercial service in the first half of next year.

Should you buy Bombardier?

Despite all the excitement, nothing has really changed in the past week. No new deals have been signed, the rail unit IPO hasn't happened, and the CSeries still hasn't been certified.

Given the track record of the program and the fact that the order book is still light, investors might want to take the same approach as the potential CSeries customers and just sit back to wait to see what happens before committing some money.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/10/01

Date Created

2015/09/21

Author

aswalker

default watermark

default watermark