



Will Bombardier Inc. Turn Around or Drop Further?

Description

Not a week goes by without another gloomy update regarding the painfully slow decline of **Bombardier Inc.** ([TSX:BBD.B](#)). The stock is down by over 60% for the year and, while the company is not out of cash quite yet, Bombardier has taken the step to essentially slap a For Sale sign on anything that isn't bolted to the ground to help get the CSeries project completed.

The CSeries is Bombardier's first attempt at entering the larger jet market dominated by **Airbus Group SE** and **Boeing Co.** The CSeries is more fuel efficient, quieter, and more light-weight than the competitors offerings, forcing both to release revamped updated versions of their own planes—the A320Neo and 737MAX.

The project is a lucrative multi-billion dollar initiative that is now years late and billions overdue. The current schedule calls for deliveries of the over 200 orders for the CSeries to start in 2016. At up to \$70 million per plane, this could be the return to profitability, which the company sorely needs.

Last week *Reuters* reported that certification testing for the new plane will be complete by November 23. Investors and company executives will take this news as a sigh of relief—albeit a small one.

Is Bombardier is looking for buyers, or a partner to bail them out?

Investment bankers have apparently been called in to look at any and all financing options, including selling all or parts of the aerospace or rail segments, bringing in private equity investors or even establishing joint ventures.

While this may seem like a drastic measure, the important point to keep in mind is that Bombardier is not *yet* in a desperate need for cash; this move can be seen more as a pre-emptive attempt to shore up the stock. The company did secure additional \$1.1 billion in equity and over \$2.2 billion in debt less than a year ago.

The provincial government in Quebec might be a potential suitor for the ailing company. Quebec premier Philippe Couillard showed his support for the company in an interview for *Bloomberg*, saying "If they need something we will be ready to help them—not only because of the company itself, but the

whole impact on the economy in Montreal and the aeronautical cluster.”

Cost-cutting efforts are showing promise

Over the past two years Bombardier has implemented a number of wide-reaching cost-cutting initiatives. In May, 1,750 jobs were cut from the jet division, and a further 1,000 positions were eliminated back in January.

Further cuts now seem inevitable as the company strives to be as lean as possible until the CSeries launches. Those cuts may soon turn to the Q400 turbo prop program to make it more competitive.

While Bombardier is an absolute bargain at the current price of just \$1.52, this stock comes with a considerable risk that investors should be well aware of. While it would be unlikely for the company to fail completely, there is unbelievably still room for this stock to drop further should another delay materialize.

In my opinion, investors that are comfortable with the considerable risk this stock represents, who can stand to buy the stock and hold it, will make a considerable return on their investment when the CSeries deliveries start.

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Author

dafxentiou

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