



## Does Bombardier Inc. Have 100% Upside?

### Description

After falling over 60% in the past 12 months, shares of **Bombardier Inc.** (TSX:BBD.D) spiked 30% in the past 30 days after speculation rose that it would sell off some of its businesses. As with many companies with disparate business lines, it looks like investors place a higher value on individual segments than the company as a whole.

There is growing optimism that the value of the company's rail unit is significantly higher than many suspect. There is also some momentum in the sales prospects for its newest CSeries jet.

With a current market cap of under \$4 billion, how much could Bombardier really be worth?

### One segment could be worth gold

Recent reports say that Bombardier rejected a proposal by Beijing Infrastructure Investment for a 60-100% ownership stake of Bombardier Transportation, valuing the unit for as much as \$8 billion. Beijing Infrastructure's reported offer values Bombardier Transportation at 10.4 times next year's EBITDA.

The company responded that the business segment is not yet for sale, but hinted at an IPO. Most analysts expect it to fetch at least \$6-7 billion. Once a transaction goes through, this valuation means that Bombardier stock would attract a much higher price than where it trades today.

### Investors have been undervaluing the prospects of the CSeries jet

Following the Paris Air Show in June, management stated that interest in its CSeries jet from would-be buyers was "overwhelming." They also said that Bombardier saw "heightened interest and sales discussions with marquee airlines who are starting to see what this aircraft will do for them."

The company is so confident in the project that it is exploring the sale of a stake in many of its business areas to ensure it can finish development of its CSeries jet. After years of delays and cost overruns, it expects to complete the final aerospace certification testing by November 23. Because the drop in share price over the past year has largely been due to investor dissatisfaction with the project, it's very possible that shareholders are undervaluing what the CSeries jet could actually be worth.

### **Does Bombardier have time?**

In all, the future of Bombardier looks bright, at least if they can survive until it can either sell some of its businesses or fully launch the CSeries jet. **Macquarie Group Ltd.** recently released a report saying that the company burned through \$808 million of free cash flow last quarter, up from \$424 million a year earlier. Bombardier has \$3.1 billion in cash left, but "based on our free cash flow forecast, Bombardier could require a liquidity boost in 2017 to maintain operations."

Right now, it appears as if an investment in Bombardier is a bet on its survival. Should it survive over the next year or two, the company has plenty of options to unleash hidden value. If its negative free cash flow catches up with it, that hidden value may never be realized.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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### **Author**

rvanzo

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