



Contrarian Investors: Should Bombardier, Inc. Be on Your Holiday Wish List?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is having a brutal year, and investors can be forgiven for crossing the name off their wish lists.

As we head into the darkest days of December the stock is threatening to hit a new low, and many investors have completely given up on the company. The performance to date would suggest that's the best course of action to take, but contrarian types are looking for catalysts beyond the holiday season and wondering if there might be brighter days ahead.

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

CSeries certification delay

Bombardier has finally completed the required test flights for its troubled CS100 jets and is waiting for Transport Canada to certify the plane.

The certification is expected by the end of this month and would allow Bombardier to move to the next step in the process.

The market seems to think that Transport Canada isn't going to issue the certification before the end of the year, so a positive announcement in the next couple of weeks could give the stock a boost.

Cash situation

The CSeries program is more than two years behind schedule and at least \$2 billion over budget. Earlier this year the company loaded up its balance sheet with more debt, canceled the dividend, and diluted existing shareholders through a large equity issue.

The threat of a new cash crunch had management scrambling to find partners in recent months, but negotiations with competitors never got off the runway. Finally, the Quebec government chipped in US\$1 billion for a 49.5% stake in the CSeries program, and the province's public pension plan came to the table with US\$1.5 billion to acquire a 30% position in Bombardier's rail transport operation.

The funding should be enough to get Bombardier through the next couple of years as it begins to deliver the CSeries jets to customers. Airlines normally pay for planes on delivery, so it is critical for Bombardier to get the planes into service as soon as possible.

Delivery targets

Bombardier expects the CSeries to go into commercial service in the first half of 2016. If the company can manage to move the first delivery into the first quarter, the market might start to believe in the stock again.

New orders

The long-term success of the company depends on Bombardier's ability to sell enough of the new planes to be profitable. The company currently has 243 orders, which is short of the initial 300-order target.

Bombardier hasn't received a new CSeries order since September 2014.

Investors are concerned that the CSeries might have missed its chance. The plane is more fuel efficient than competing models, but that selling point carries much less weight now that oil prices have fallen to 10-year lows.

The company says a number of airlines are interested in the jets. If a new order comes from a major carrier, the stock could take off.

Should you buy?

A lot of things have to go right, but there is a chance for contrarian investors to do very well if Bombardier can finally turn the corner. The bet is still a risky one and any further bad news could send the stock well below the \$1 mark.

I would wait for the first plane to be delivered before starting a position in the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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