



Bombardier, Inc.: Could This Stock Soar in 2016?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is about to wrap up a horrible year on a good note, and investors are wondering if the beleaguered Canadian icon has finally bottomed.

CSeries progress

Most of Bombardier's problems are linked to the CSeries jet program. Delivery of the first plane is more than two years late, and the budget for the program has swelled by at least \$2 billion.

In early 2015 it became evident the company was facing a nasty cash crunch and management had to make some drastic moves. Bombardier eliminated its dividend and raised capital at a brutal cost to shareholders, but the moves were necessary to keep the business solvent.

As market confidence dwindled in the following months and no new CSeries orders emerged, the stock slid, and management once again found itself scrambling for money. Going to the capital markets again was out of the question, so Bombardier tried to sell part of the CSeries to a competitor.

That didn't work out and the Quebec government had to step in, giving Bombardier US\$1 billion for a 49.5% stake in the CSeries program. That wasn't enough money, so the province's pension fund chipped in another US\$1.5 billion for a 30% stake in the rail transport unit, which is being put into a separate company.

Those funds should be sufficient to get the CSeries program off the ground, but success is still not guaranteed and the company doesn't expect the CSeries program to be profitable until 2020 at the earliest.

So, where's the good news?

Better days ahead

Bombardier just received certification from Transport Canada for the CS100, which clears the way for the planes to be put into commercial service. That's one big hurdle out of the way and could lead to

new orders from companies that have been waiting to see the planes in action before placing an order.

Bombardier expects to deliver the first plane in the next six months. If the company manages to move that into the first quarter, the stock could get a boost, as investors would feel confident that Bombardier's darkest days are behind it.

Train strength

Bombardier's deal with the Caisse de Depot et Placement du Quebec values the train unit at US\$5 billion, much lower than the US\$8 billion that floated around the rumour mill a few months earlier. The rail group is facing its own operational challenges and competition from the Chinese in the U.S. market could prove to be problematic in the coming years.

On the positive side, Bombardier just received a massive order with partner Alstom to supply more than 1,300 train cars to Belgian National Railways. Bombardier's part of the US\$3.6 billion agreement is about US\$2.3 billion. The deal is important for the stock because it gives the market confidence that the train business is still capable of competing for large international orders.

Could the shares rocket higher in 2016?

Any positive developments on the CSeries should put a tailwind behind the stock. The company just has to hit its delivery target and secures new orders from a few high-quality airlines. Hopefully, Bombardier won't discount the planes so much that it pushes profitability beyond 2020.

Should you buy?

The stock is still risky and everything has to go right from here on in. Given the track record to this point, investors should be careful. At the very least, I would wait for the first CSeries plane to be delivered before buying the stock.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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