



## Bombardier, Inc.: Is This Stock Preparing for Takeoff?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) and its investors survived 2015, and pundits are trying to decide if a rally could be in the works for 2016.

Let's see if better days are ahead.

### CSeries outlook

The problems surrounding Bombardier's CSeries project are well known. The program is more than \$2 billion over budget and delivery of the first CSeries jet is two years behind schedule.

The result has been a disaster for the company's shareholders.

Facing a cash crunch in early 2015, Bombardier eliminated its dividend, diluted shareholders with a massive equity issue, and loaded up the balance sheet with new debt.

The stock dropped like a rock and kept sliding as it became evident that more money was needed to keep the company going. In August the stock hit a multi-decade low of \$1.03 per share.

Bombardier had to find more cash, but going back to the capital markets was not an option. Instead, the company received US\$2.5 billion from Quebec and its pension fund, the Caisse de Depot et Placement du Quebec (CDPQ).

Quebec now owns 49.5% of the CSeries program and the CDPQ controls a 30% stake in Bombardier Transport.

The cash infusion buys the company enough time to get the CSeries completed. As the first planes are delivered, cash flow should improve, but there is a long road ahead to CSeries profitability.

### Better days ahead?

Bombardier received certification for the CS100 in December, paving the way for the company to get the plane into commercial service.

That is going to be key for the survival of the program and the company. If Bombardier can meet or even move forward its first CSeries delivery, the market would start to believe that a turnaround is finally in the works.

New customers might also step up and place orders for the planes. Bombardier hasn't signed a new CSeries deal since September 2014. With so many issues facing the company and the CSeries program, airlines have simply decided to take a wait-and-see approach before committing to new orders.

A deal with a large and stable carrier would go a long way towards restoring confidence in the program.

### **Is a rally on the horizon?**

Development delays have caused concern in the market, but a drop in fuel prices has also reduced the appeal of the CSeries, which is marketed based on its fuel efficiency.

Airlines are crunching the numbers and deciding that it is more cost effective to buy or lease older planes at a lower price than to pay up for a new CSeries plane.

Bombardier says it will offer better discounts to entice airlines to buy the planes, but that strategy is risky. The company already expects the CSeries program to lose money until 2020. Heavy discounting could push that date further out, and Bombardier desperately needs to make the program profitable as soon as possible.

### **Should you buy?**

Any good news on the CSeries should send the shares higher, but everything has to go according to plan from here on out. More bad news could send the stock crashing again, and the liquidity issue is still a concern for the medium term.

If you have a contrarian investing style, you might want to start nibbling, but I would wait until the first jets are delivered before buying the stock.

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1. Investing

### **POST TAG**

1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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## Date

2025/10/01

## Date Created

2016/01/06

## Author

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