



## Bombardier, Inc.: What Happened to the Rally?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) is down more than 30% in the past three months, and investors are wondering if the stock is setting up for another run at the August lows.

Let's look at the recent developments to see if we can figure out why the stock is under pressure again.

#### Good news fading

At the end of October, Bombardier announced a US\$1 billion cash injection from the Québec government and then received another US\$1.5 billion in November from the province's pension fund, Caisse de dépôt et placement du Québec.

The deals were supposed to put a floor under the share price because they alleviated fears about another cash crunch, or at least a short-term one.

The stock picked up a bit of a tailwind on the funding news, but the follow through didn't pan out.

In December, Bombardier finally received certification from Transport Canada for the new CS100 plane. This milestone was also expected to jump start a recovery, because it paved the way for Bombardier to focus on getting the first CSeries delivered and into commercial service.

Again, the stock had a bit of a pop on the news, but investors simply used the move to cash out, and Mr. Market has been grumpy ever since.

#### Some bad news

On January 13, Bombardier announced it would start selling planes directly to customers in the Middle East and North Africa, ending a 40-year sales arrangement with TAG Aeronautics, which sold the company's Challenger and Global series business jets.

Cutting out the middleman sounds like a good way to reduce costs, and you would think the news would be positive, but the company also said it will incur charges of \$278 million due to the move and

is cancelling 24 firm orders for jets valued at a list price of \$1.75 billion, plus connected options for an additional 30 planes.

### **No news is also bad news**

The biggest reason for the stock's retracement could be the fact that the company still isn't signing new CSeries orders. The last deal for the new planes was inked in September 2014, and Bombardier is still 57 orders short of its target of 300.

As oil prices continue to fall, jet fuel prices are falling in step, and that isn't good news for the CSeries, which is marketed based on its fuel efficiency.

Airlines are crunching the numbers and deciding that older planes, either purchased or leased, make more sense than dropping big bucks on a new CSeries. As a result, Bombardier might have to lower its prices to beef up the order book, but that could push out the 2020 profitability date on the CSeries program. With so much debt on the balance sheet, this isn't what investors want to see.

Investors are also waiting for confirmation of a delivery date for the first CSeries plane. That is supposed to occur in the first half of 2016. The longer the company remains tight-lipped on this milestone, the more nervous the market is going to get about the possibility of further delays.

### **Should you take a shot at this level?**

Everything has to go right from this point onward. If Bombardier can secure a significant new order at a reasonable price from a major international airline and finally meet its delivery targets, the stock could catch a tailwind that would be sustainable, and investors might be rewarded with a big gain.

However, uncertainties still abound. I would at least wait until the first CSeries jet goes into commercial service before buying the stock.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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