



## Should You Buy Bombardier, Inc. Shares for Just \$1?

### Description

After a horrible 2015, **Bombardier, Inc.** ([TSX:BBD.B](#)) shares have had a rough start to 2016 and now trade at about \$1. So with the stock this beat up, has the company finally become a good buy?

### Breaking down the numbers

With a share price of \$1, Bombardier's market capitalization would be roughly US\$1.4 billion. After adding on US\$4.3 billion in net debt (this number factors in the cash injections from public sources), and another US\$2.4 billion in pension liabilities, the company's businesses are valued at roughly US\$8 billion.

So what do you get for US\$8 billion? Well to start, the government of Quebec recently invested US\$1 billion for a 49.5% stake in the CSeries program. And the province's largest pension fund invested US\$1.5 billion for a 30% stake in Bombardier Transportation. When using those valuations, Bombardier's stake in the two businesses is worth a combined US\$4.5 billion.

That leaves Bombardier's remaining businesses, which includes the sale of regional aircraft, business aircraft, and engineering systems. Combined, they have generated just over US\$10 billion in revenue over the previous 12 months. Based on the math above, you'd have to pay just US\$3.5 billion for them.

One-third of revenue seems like a very attractive multiple. After all, if Bombardier is able to generate 5% profit margins on these businesses, you'd be paying less than seven times earnings.

### Is this deal too good to pass up?

This may seem like a great deal on the surface, but there's a reason why Bombardier trades this cheaply.

First of all, let's remember that Bombardier remains in terrible financial shape, even after raising US\$2.5 billion from public sources. The company continues to burn cash, and if there are any more slip ups it will need to raise more capital. Remember, Bombardier reportedly has already asked the federal government for an investment. This would not have been done if the company was on solid footing.

Secondly, the numbers above assume that the CSeries program is still worth US\$2 billion. But this is based on an investment by Quebec that most pundits see as government assistance.

If that weren't enough, the business jet industry is in terrible shape. Demand is collapsing in China as its economy slows and the government cracks down on corruption. Russian demand is also falling due to economic concerns and a weak currency. Bombardier's regional jet business isn't doing much better, having logged a 0.5 book-to-bill ratio through the first nine months of 2015.

### **Just stay away**

Bombardier's stock certainly seems cheap, and it can be tempting to bet on a turnaround. But there are simply too many issues with this company, and the potential rewards do not justify the risk. Your best bet is to look elsewhere.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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