



How Far Will Bombardier, Inc. Drop?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) really can't catch a break. The iconic manufacturer is well known around the world for the planes and trains that travelers and commuters use on a daily basis. As widely used as those trains and planes are the company has been under considerable pressure over the past few years as increasing costs and delays have stemmed from the CSeries program.

How did the problems start?

The CSeries is a revolutionary new jet the company has developed that is ahead of the competition in terms of fuel efficiency and use of ultra-light components. The plane was intended to be the ultimate answer to airlines around the world at a time when profits and revenues were being gobbled up by increasing fuel costs.

Unfortunately for the CSeries, fuel costs dropped considerably and CSeries program itself was several years behind schedule and \$2 billion over budget.

Bombardier responded by cutting costs, securing financing, eliminating the dividend, and even scaling down operations of other projects. However, as significant those cuts were they could not stem the losses that the stock would see. The stock dropped by 80% in the past two years, leading to the company needing a \$1 billion dollar investment from the government of Quebec last year.

What can Bombardier do?

As I'm writing this (oddly enough, while on a Bombardier train), the stock is down nearly 40% this year and is flirting with a low of 82 cents a share. If the stock remains at these levels over the next few weeks, Bombardier could find itself jettisoned from the S&P/TSX Composite Index. If that does happen the stock will really start to drop.

For Bombardier, there are still options available for the company, but time is starting to wane. The CSeries project is now complete and certified, but lacks the amount of buyers needed to churn a profit from the program. That may still happen as the company has been speaking with a number of airlines that have expressed interest in the new plane, but there hasn't been a new order for the plane in over

a year.

The new Liberal government in Ottawa could potentially step in and help the company by matching or bettering the investment that Quebec made last year. With Bombardier directly linked with 24,000 skilled employees in the country and countless more indirectly, it could mean that a relatively small investment by the federal government could save thousands of jobs.

Considering that the economy is already shaken by the collapse of oil prices, the loss of manufacturing and technology jobs (a company that contributes \$6.5 billion to the Quebec economy) seems like one of the worst possible things that could happen to the economy at the moment.

Bombardier is a great company with a proud, storied past. The fact that it did complete the CSeries program is a behemoth task when considering the size of the company's primary competitors in the market. The CSeries could still be a shining success; all that is needed is one or two large airliners to place orders, and the company and investors will see the revenue and growth that they have always expected.

In my opinion, the company is an incredibly risky stock to purchase at the moment, but investors who are willing to take on the substantial risk could be rewarded immensely if the CSeries takes off.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/08/01

Date Created

2016/02/05

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