



Bombardier, Inc.: The Good, the Bad, and the Ugly From the Latest Results

Description

On Wednesday morning, **Bombardier, Inc.** ([TSX:BBD.B](#)) reported results for the fourth quarter of 2015, and the numbers were certainly mixed. We take a look at the good, the bad, and the ugly below.

The good

The best piece of news is that **Air Canada** has signed a letter of intent for up to 45 CS300 aircraft with an option for 30 more. Assuming this is converted into a firm order, it would be the first order for the CSeries in about a year and a half. It would also be the first order from a major North American airline, which sends a very positive signal.

Bombardier has also announced plans to cut 7,000 jobs worldwide. While this is certainly devastating for the employees involved, it does show that Bombardier is serious about tackling a bloated cost structure. It also shows that the company is not hamstrung by the recent investments it received from the public sector. Without doubt, the cuts are part of the reason investors have reacted so favourably.

There was one other piece of good news. Bombardier announced that the company will execute a reverse share split, resulting in a share price of \$10-20. The move ensures that Bombardier will remain part of the TSX index.

The bad

While Bombardier announced some positive steps, the company missed fourth-quarter estimates. Revenue fell 16% year over year to US\$5 billion, trailing estimates of \$5.5 billion. The company also broke even on a per-share basis, missing the \$0.02 average estimate from analysts.

Other measures weren't any better. Bombardier actually reported negative 19 net orders for its business jet division and 21 net orders for its commercial aircraft. Both numbers are down significantly year over year and were not even able to meet Bombardier's reduced expectations. As a result, order backlogs in the business aircraft and commercial aircraft divisions declined by 28% and 8%, respectively.

The ugly

Bombardier's ugliest numbers concern its free cash flow usage. During 2015, the company burned through US\$1.8 billion, including net interest charges and income taxes. And this number won't get much better; Bombardier expects to consume at least US\$1 billion in 2016.

The other major issue is Bombardier's balance sheet. The company has roughly US\$6 billion of net debt on its balance sheet (not including any pension liabilities), which is far too high a number for a company of this size.

That said, the ugly numbers were already well known before Bombardier released this update, so it's not surprising that the stock has reacted well. Whether the company can keep up the momentum is another matter.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/07/22

Date Created

2016/02/17

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