



Is a Big Order From Air Canada Enough for Bombardier, Inc.?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) shares are on fire during early trading on Wednesday morning, soaring 20% as I write this.

The company released quarterly results that included some pretty drastic cost-cutting measures. It's cutting 7,000 jobs, mostly from the Transportation and Engineering Services parts of the operation. This will be somewhat offset by some additional hires for the CSeries program.

Management also expressed confidence that a bailout from Ottawa will eventually happen; they hope that it will come in a similar form as an earlier investment from the province of Quebec. Between the Quebec government and the province's pension giant Caisse de Depot, \$2.5 billion was spent for a 49% stake in the CSeries and a 30% stake in the transportation division.

Additionally, the company stated that CSeries production was on schedule with deliveries expected to begin in the second quarter of 2016; a total of 95 aircraft will be delivered during the year. That's good news for a company and project that has been so plagued with delays.

And finally, Bombardier announced a proposed reverse stock split. If approved at the upcoming annual meeting, this reverse split would push the share price back up between \$10 and \$20, eliminating the penny-stock stigma that has affected the company over the last few months.

Perhaps the most important news didn't even come from Bombardier. **Air Canada** ([TSX:AC](#)) signed a letter of intent to buy 45 of the larger CS300 aircraft with options for 30 more. Altogether, this order could be worth as much as US\$6.4 billion.

Remember, it's been longer than a year since the last firm CSeries order. In the meantime, it seems like dozens of interested parties have considered adding the CSeries to their fleets, but ultimately decided to go with similar models offered by **Boeing** and Airbus.

Will it matter?

An order that size is a big deal for any plane maker. For Bombardier, it has the potential to make a real

difference.

At the end of 2015 the company reported a backlog of US\$59.2 billion. Add on Air Canada's order, and we're at US\$65.6 billion. For a company that did US\$18.1 billion in revenue for 2015, it's a big deal.

There's also the confidence factor. Air Canada is one of the world's leading airlines. If it gives a big vote of confidence to Bombardier, investors will naturally speculate that additional orders will follow from both Air Canada and its competitors.

The delivery schedule matters, too. Customers will soon get a chance to see the CSeries in action. This could also stimulate more orders.

The balance sheet

Investors are very concerned with Bombardier's cash burn. As of September 30 the company was sitting on US\$2.9 billion. A quarter later, this has decreased slightly to US\$2.7 billion.

This isn't such a bad result. The company didn't receive any proceeds from the two announced investments by the Quebec government until after the quarter, which means it really only burned approximately US\$200 million for the period. With a cash balance of US\$2.7 billion, available credit facilities of US\$1.3 billion, and an upcoming US\$2.5 billion cash infusion from Quebec, Bombardier's liquidity position looks pretty good. Anything coming from Ottawa is just gravy.

Investors are naturally encouraged by the Air Canada order. It has given the CSeries program a much needed shot in the arm. But for long-term investors, the balance sheet is far more important. The company seems to have stemmed the huge cash drain that threatened to bankrupt the company.

Bombardier isn't out of the woods yet, but this latest news is a good start. Investors should be encouraged.

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