



Bombardier, Inc.: 3 Reasons to Be Optimistic

Description

There has been a lot of negative press surrounding **Bombardier, Inc.** ([TSX:BBD.B](#)) over the last few years.

Much of this bad publicity has been because of the CSeries, a program that has evolved from an exciting new plane to a punchline for management ineptitude. The project has been plagued with everything from cost overruns to about six separate delays. One of the test planes even had engine problems. In short, if it could go wrong, it probably slowed the CSeries down at some point.

Lately, the focus has shifted away from the CSeries and towards Bombardier's balance sheet issues. The company burned more than US\$2.5 billion in cash during 2015, spending aggressively as it put the finishing touches on the CSeries. At least there looks to be light at the end of the tunnel with deliveries promised for mid-2016 appearing to be right on schedule.

Issues with CSeries deliveries are one thing. At least the company knows it'll get paid for those planes at some point. Balance sheet issues are a whole other beast. If the company can't remain solvent, shareholders will lose everything.

Fortunately, for folks who are bullish on the stock, some recent developments have helped to put the stock on more solid ground. Here are three reasons why the company has a brighter future ahead.

Slowed the cash burn

During the fourth quarter, Bombardier made headlines when the Quebec government made two separate investments in the company, totaling US\$2.5 billion. US\$1.5 billion came from Caisse de depot, Quebec's pension giant, for 30% of the Transportation division. US\$1 billion came from the government itself in exchange for a 49.5% equity stake in the CSeries.

This cash injection, plus the US\$3.1 billion in cash already on the balance sheet, should easily be enough for the company to make it through 2016. Since cash flow from CSeries orders will also start to come in 2016, there's even an argument to be made that the company's cash crunch might be over.

Bombardier is also quite publicly pursuing an investment from the federal government; rumours continue to swirl that the feds are close to putting US\$1 billion into the company. That would further solidify what's beginning to look like a decent balance sheet.

A big order

Bombardier also announced that **Air Canada** would be the latest CSeries customer with an order of 45 CS300 aircraft. Air Canada also has options for 30 additional planes. At face value, this order is worth US\$3.8 billion, although it is widely believed Air Canada got a bit of a deal.

That order was big news, especially for a company that hasn't gotten a firm CSeries order since 2014.

Analysts suggest the reason for the slowdown was two-fold. Firstly, customers were concerned about future delays as well as the health of Bombardier. And secondly, competition from other plane makers is intense. When the CSeries was announced, it was a leap forward in technology. But chief rivals have caught up, improving their own new models, so they're now pretty comparable.

A big commitment from Air Canada could be enough stimulus for other airlines to take a closer look at the CSeries.

Cost cuts

I don't normally like to see people lose their jobs, but if Bombardier is going to avoid bankruptcy, cuts are needed.

The company delivered in a big way, announcing 7,000 job cuts from just about every division. That's on top of at least two separate batches of layoffs that were announced in 2015. Altogether, the company has eliminated approximately 10,000 jobs over the last year. If each worker made \$75,000 per year, that's an annual savings of \$750 million.

If Bombardier is going to really turn things around, the company needs to run a tighter ship. These job cuts are a good start. Look for additional cost-cutting measures for 2016.

Bombardier isn't out of the woods yet. But at least recent happenings are giving reasons for investors to be positive for what seems like the first time in months. Bombardier shares are so cheap that even small bits of good news could propel them much higher.

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TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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1. Investing

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1. Editor's Choice

Date

2025/08/25

Date Created

2016/03/01

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