



Bombardier, Inc.: Is it Finally Time to Buy This Stock?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has rallied 70% off the February lows, and investors are wondering if the beleaguered plane and train maker has more upside on the way.

Let's take a look at the current situation to see if Bombardier deserves to be in your portfolio.

CSeries program on the mend?

Most of Bombardier's troubles are connected to the company's struggling CSeries jet program.

The project is billions of dollars over budget and more than two years behind schedule. The drawn-out struggles led to a cash crisis early last year, forcing the company to halt its dividend, load up on new debt, and dilute shareholders through a large equity offering.

By the end of the summer, it became clear that more money was needed, but Bombardier couldn't return to the capital markets for help. Instead, the Quebec government and the province's pension fund came to the rescue with a total of US\$2.5 billion in funds for equity stakes in the CSeries program and the rail transport business.

The cash injection solved a short-term liquidity issue, but the share price continued to fall as investors wondered when the company was going to get a new order for the planes.

That news came last month as **Air Canada** signed a letter of intent to buy 45 CSeries jets.

The stock took off as a result, catching the shorts off guard and bringing in contrarian types hoping the news would signal a bottom.

Investors should be careful.

The Air Canada deal certainly helps the image of the CSeries program and might spur other carriers to step up to the plate, but details of the agreement are unknown, and investors should be wondering how heavily Bombardier had to discount the planes to get the sale.

The CSeries program isn't expected to turn a profit until at least 2020. If Air Canada managed to negotiate a massive discount, the profitability date might be pushed out even further.

Troubled orders?

Shortly after the Air Canada announcement, an existing CSeries customer, Republic Airways, filed for bankruptcy, putting 40 firm orders at risk.

If the Republic planes, which were ordered back in 2010, don't get delivered, the Air Canada deal essentially maintains Bombardier's existing order book.

Before the Air Canada announcement, Bombardier had 243 firm orders, well short of the 300 orders management wants by the time the first planes go into commercial service.

More money needed

Most airlines don't pay for planes until they take delivery, so Bombardier has to start putting the CSeries into its customers' hands or it is going to be in financial trouble again. The first plane is supposed to be delivered in the first half of 2016. So far, that hasn't happened.

Bombardier is asking the Federal Government to give it an additional \$1 billion in funding to help it get the existing orders built and into commercial service. The prime minister says he wants Bombardier to be successful, and most market watchers expect some form of aid to be handed out.

The company just announced plans to cut 7,000 jobs, of which, at least 2,000 will be in Quebec, where the company directly employs about 18,000 people. Those jobs tend to be well paid, so the government can't allow the company to disappear.

Should you buy?

Investors should probably avoid the stock until all of the uncertainty has been cleared up around the viability of the CSeries program and the funding arrangement with the Federal Government.

The prime minister won't let Bombardier die, but that doesn't mean shareholders are safe.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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