



Bombardier, Inc.: 3 Things to Consider Before You Buy

Description

Bombardier, Inc. ([TSX:BBD.B](#)) recently surged more than 50%, and that has contrarian investors wondering if they should finally buy the stock.

Let's take a look at some of the key issues facing the company to see if the potential rewards outweigh the risks right now.

1. Funding concerns

Last year Bombardier had to raise cash on two occasions, and the company still needs more money.

The first round of funding came in February when Bombardier managed to convince investors to buy \$1.1 billion in new stock at \$2.21 per share. Buyers also gobbled up US\$2.25 billion in new senior debt.

The company used US\$750 million of the funds raised in the debt issue to pay notes that were coming due in early 2016. The remainder was allocated to the CSeries program.

As 2015 progressed, it became evident that more cash was needed, but going back to the capital markets was not an option.

Why?

The stock had fallen so much that a new issue was not feasible, and the debt load was already too high. Bombardier is sitting on US\$8.9 billion in long-term obligations, which is about \$11.75 billion when converted to Canadian dollars. That's a scary number considering the market capitalization of the company is just \$2.65 billion.

The Quebec government finally agreed to provide US\$1 billion for a 49.5% stake in the CSeries project, and the province's pension fund handed over US\$1.5 billion for 30% of the rail group.

Now, pressure is being put on the prime minister to pony up an additional US\$1 billion to help cover cash flow gaps through 2016 and into next year.

Why does Bombardier need so much money?

The CSeries program is more than two years behind schedule and at least \$2 billion over budget. The airlines that have ordered the CSeries jets will only pay for the planes when they take possession, so Bombardier needs the cash to keep it alive long enough to get the orders built and into commercial service.

2. CSeries order issues

Bombardier has 243 firm orders for the new planes, well short of its target of 300 by the time first jets are expected to go into service.

The stock recently rallied on news that **Air Canada** has signed a letter of intent to purchase 45 CSeries jets. That is good news if the deal actually goes through, but investors should still be concerned about the order book.

Shortly after the Air Canada announcement, an existing order for 40 planes suddenly went into jeopardy. **Republic Airways**, which ordered its jets back in 2010, filed for bankruptcy. The deal was already at risk because Republic's business structure has changed, and the company no longer has a need for the planes. Now that Republic has filed for protection, pundits are betting the order will be cancelled.

3. CSeries profitability concerns

If everything goes according to Bombardier's plan from here on out, the CSeries will start to turn a profit in 2020. That might turn out to be true, but investors should be careful.

Airlines know Bombardier has its back against the wall and they are going to squeeze the company as much as possible to get a reduction in the CSeries price. To make things worse, Bombardier's competitors have deep pockets and can afford to low-ball their bids to keep Bombardier out of the market.

For the moment, the success of the CSeries program is still up in air.

Should you buy?

If all of the stars align, Bombardier's stock could soar, but that's a risky bet to make right now, and investors should probably look for other opportunities.

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