



Bombardier, Inc.: Can This Stock Double ... Again?

Description

After years of CSeries delays, financial mismanagement by top execs, and a myriad of other issues that brought shares of **Bombardier, Inc.** ([TSX:BBD.B](#)) down into penny-stock territory, things have finally been looking up over the last two months.

Shares of the beleaguered maker of planes and trains are on fire, rising more than 107% since February 11 lows. That's a huge move upwards, especially in the face of all the bearish commentary against the company.

It's easy to see why investors don't like Bombardier shares at this point. The company's debt load is humongous. The CSeries has seemingly been cursed since it was announced. And development of the new plane took so long that technology offered from competing Airbus and **Boeing** aircraft is every bit as interesting as what the CSeries offers.

The company is even running into bailout troubles. Back in November, it announced a deal for US\$2.5 billion in funding from various parts of the Quebec government in exchange for ownership stakes in the CSeries and the company's rail division. Investors assumed a similar bailout from Ottawa would happen too, but sources say the company and the federal government can't agree on a deal.

With all of this bad news out there, why have shares doubled?

Not all bad news

After not getting any CSeries orders for all of 2015, 2016 has been a pretty good year for Bombardier.

Firstly, it announced an order from **Air Canada** in February for 45 CSeries jets—an order that included an option for 30 more. That order could be worth more than US\$4 billion, which is worth getting excited over.

And although nothing is confirmed, rumours are flying that Bombardier is about to sign a deal with **Delta Air Lines** that would see the U.S.-based carrier order as many as 75 CSeries jets with an option for 50 more. That's a huge order for a company that has struggled to get any traction.

Additionally, Latvian carrier Air Baltic told Bombardier it planned to convert its seven CSeries purchase options into a firm order.

The two huge orders give the company something it has sought for a long time—credibility. If two of North America's largest airlines dedicate serious money towards CSeries jets, the thought is that others will follow in their footsteps. After all, the folks in charge of Delta and Air Canada are smart people.

Even if a deal doesn't get done with the federal government, Bombardier might not be in danger of running out of cash. At the end of December, the company had US\$3.1 billion in cash on the balance sheet, a slight improvement compared with the previous quarter. None of the bailout money had been received by the end of the year; the additional cash came from internal cash flows.

The company is on track to unveil the CSeries in the third quarter, meaning we're officially in the home stretch. Once orders start going out to customers, cash will flow in. It's obvious investors are thinking that this will be enough to ensure the company doesn't run out of liquidity.

One final thing going for Bombardier is the overall demand trend. Flying is incredibly popular, and survey after survey says millennials value travel highly. If this trend continues, it ensures plenty of business over the next few decades.

Should you buy the stock?

I won't mince words. Bombardier is a risky stock. It still has many issues, the biggest of which includes more than US\$9 billion in debt (including preferred shares). If things start to go badly, investors will get burned much worse than if they own something of higher quality.

But at the same time, with greater risk comes greater potential reward. Shares have already doubled off recent lows, and they could easily do so again. We've seen what kind of effect a few pieces of good news can have.

Ultimately, it's up to each individual investor to decide. One thing is certain, however: if more things go right for this embattled company, shares could easily double again ... and then some.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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