



## Bombardier, Inc.: Is the Big Rally Justified?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) is up more than 100% since early February, and investors are wondering if the bounce is the start of a long-awaited recovery.

Let's take a look at the current situation to see if the surge has merit.

#### CSeries drama

Bombardier's troubled CSeries program is at least \$2 billion over budget and more than two years behind schedule. The division has saddled the company with roughly \$9 billion in debt and forced management to turn to government aid to help it get through the final stretch.

Late last year, the Quebec government and the province's pension fund forked over US\$1 billion and US\$1.5 billion, respectively, to acquire positions in the company.

The province now owns a 49.5% stake in the CSeries program and the pension fund controls a 30% stake in Bombardier Transport, the company's rail division.

Whether or not the federal government will put some taxpayer skin in the game is yet to be seen. Bombardier initially asked for the extra help, but recent comments by management and Bombardier's refusal of an initial federal offer suggest the company doesn't believe it needs any more help.

On the surface, that should be good for shareholders.

What has changed?

News that **Air Canada** has signed a letter of intent to purchase 45 CSeries jets initiated the rally. The order still has to be firmed up, but the market let out a sigh of relief on the news, and the stock took off.

The Air Canada announcement is important because it is the first order for the new planes since September 2014. It is also the first from a major international airline. Since then, Air Baltic converted seven purchase options to firm orders, and rumours are flying around that **Delta Air Lines** is on the

cusps of making a large CSeries purchase.

As a result, the shorts have scrambled to cover their positions and contrarian types have piled in on the hopes of a big surge on more good news.

### Ongoing risks

One of the earliest CSeries customers, **Republic Airways**, filed for bankruptcy shortly after the Air Canada announcement. That puts an order for 40 planes at risk, and some market watchers expect the deal to be cancelled.

What about the trains?

The CSeries gets all the headlines, but the company's rail division is also experiencing some serious turbulence. Bombardier is struggling to fulfill a major streetcar order for Toronto, and across the pond in the U.K., the company has been lambasted for a botched contract with the city of London.

It gets even worse.

Bombardier has long relied on the U.S. market for strong rail transport sales. The company recently lost a major contract with Chicago, and that comes on the heels of a missed deal with Boston. Both cities have opted for a Chinese competitor.

If the Chinese can get a strong foothold in the U.S. rail market, Bombardier's transport group could be in for some tough times.

### Can the rally continue?

A CSeries deal with a major American carrier would certainly lift the stock, so there is a chance the rally will continue. However, conservative investors might want to wait for confirmation of an order, just in case a deal doesn't pan out.

Longer term, the CSeries isn't expected to turn a profit until at least 2020, and that's assuming everything goes according to plan. With dark clouds hanging over the rail division and the debt pile still an issue, it might be best to look elsewhere for investment opportunities.

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