



Bombardier, Inc.: Time to Buy In or Bail Out?

Description

Investors who had the courage to buy **Bombardier, Inc.** ([TSX:BBD.B](#)) below \$1 per share are happy campers right now.

Bombardier surged above \$2.20 at the opening bell on April 28 when the company confirmed the industry's worst-kept secret, a 75-plane CSeries order from **Delta Air Lines**.

It appears the situation is a classic case of "buy the rumour, sell the news," because the stock fell through the day and continued its slide on April 29.

Why is the stock falling again?

Bombardier also announced Q1 2016 earning that missed analyst expectations. The company reported Q1 revenue of US\$3.9 billion, down 11% from the same period last year and an adjusted net loss of US\$0.03 per share compared to earnings of US\$0.09 per share in Q1 2015.

Bombardier burned through another US\$750 million in cash during the quarter, and the company continues to carry nearly US\$9 billion in long-term debt.

CSeries concerns

A wave of new orders in recent months is responsible for the 100% gain in the stock price.

Air Canada started the party when it signed a letter of intent to purchase 45 CSeries jets. The order isn't firm yet, but both companies say that will happen in the near term. **Air Baltic** followed with a firm order for seven additional jets, and the Delta deal is the largest order so far for the beleaguered CSeries program.

The deals come after a nasty drought. In fact, before the Air Canada announcement, Bombardier hadn't signed a new CSeries deal since September 2014.

Why is the plane suddenly so popular?

Some analysts say Bombardier dropped the price substantially to get some traction. According to a *Reuters* report, aircraft deals are often done at 50% of list price, but Bombardier might have discounted the CSeries by 75% to secure the deal with Delta.

Bombardier only gives the list-price value of the deals it signs, and media companies like to run with those number in the headlines, but investors have to be careful when evaluating the good news.

Management says it has been “aggressive” in its efforts to relaunch the CSeries program, but the company remains on track for the CSeries to start turning a profit in 2020. That’s reassuring, but it means investors are still looking at four more years of negative cash flow.

Ignoring other issues

Shortly after the Air Canada announcement, one of the early buyers of the CSeries, **Republic Airways**, filed for bankruptcy. Republic’s 40-plane order was already on thin ice due to changes in the company’s business model, but some analysts now believe the deal will be cancelled.

Bombardier’s rail division is also working through some hardships.

The group is struggling to fulfill a large streetcar order for the city of Toronto, and the company has come under heavy fire in the U.K. for a botched signalling contract with the city of London.

In the United States, Bombardier recently lost big train deals with Chicago and Boston. Both cities picked Chinese suppliers in a move that could spell trouble for Bombardier Transport going forward if other American cities decide to follow suit.

Should you buy now or take profits?

The CSeries program might have finally turned the corner, but Bombardier’s debt issues remain a concern, and there is no way of knowing how much the company discounted the jets to secure the latest deals.

Investors who bought the shares near \$1 might want to take some profits after the big run. For those who have been sitting on the sidelines, I would wait for the company to deliver the first few CSeries orders before buying the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/10/01
Date Created
2016/05/02
Author
aswalker

default watermark

default watermark