



Has Bombardier, Inc. Moved Too Much Too Fast?

Description

It's been a good three months for **Bombardier, Inc.** ([TSX:BBD.B](#)).

Shares of the embattled company sank below \$1 per share back in February as investors openly speculated the company was on an inevitable road to bankruptcy. The company was also dealing with disappointment that the government of Iran gave a big order to competitors. Shares sank as low as \$0.76 each, putting the company in official penny-stock territory.

Since then, it's been nothing but good news. The company got one big CSeries jet order from **Air Canada**, and then another from **Delta Air Lines**. Rumours are now swirling that **JetBlue** will be the next company to give Bombardier an order. That's quite the recovery from three months ago, when pundits were criticizing the company for not getting a firm order since late 2014.

With shares of the company hitting \$2 each in trading on Wednesday, the rally has been truly amazing. That's a total return of 130% in just a few months. That's the kind of result that can really supercharge a portfolio's return. And most importantly, it raises Bombardier from its status as a company that's practically bankrupt.

Now that shares have done so well, investors are starting to crowd back into the stock. Is there still upside potential, or have shares moved too quickly?

The bull case

The bull case is quite simple. As long as orders continue to flow in, investors will be bullish on Bombardier shares.

It's all about keeping workers busy. If orders continue to enter the pipeline, the company will have enough work to keep employees busy for at least a few years. And since deliveries of the new CSeries line are slated to begin in the next one or two quarters, cash will finally start to come into the coffers rather than flowing out.

There's also a long-term travel boom helping the company out. As the world gets richer, the experience

of travel opens up for millions of additional people. There are whole generations of people in places like China and India that can now afford to fly for the first time. This movement should be enough to ensure good demand for planes like the ones made by Bombardier for years to come.

And finally, there's the potential for the company to get a bailout from the federal government. Many people aren't sure such a bailout is really necessary—including at least one member of Bombardier's senior management—but it is a nice backup plan for bullish investors to have.

The bear case

Although it does appear that Bombardier's days of burning massive amounts of cash are behind it, the company is still facing some difficulties.

Earnings are expected to still be negative for 2016, mostly because CSeries production won't really ramp up until the second half of the year. Expectations are for earnings of negative \$0.12 per share for this year. Things get a little better in 2017, with analysts projecting a breakeven year. Still, that's not really enough to instill confidence, especially since CSeries production should be rolling right along by then.

There's also the ongoing threat from competitors. When the CSeries was first introduced, it was truly a revolutionary plane. But the offerings from its two main competitors (**Boeing** and Airbus) have improved while CSeries production stalled. The risk of customers choosing these planes over Bombardier's offerings is high.

Bombardier has become a trading stock. Investors flood in when there's expectations of good news. But they'll also get out quickly if news becomes less positive, which means shares could easily sink by anywhere from 10% to 50% in a short period of time. In any case, investors should continue to expect volatility in the stock.

There's little doubt Bombardier still has massive upside potential. Long term, Bombardier could turn out to be a huge winner. Investors just have to be careful about the stock's volatility, at least in the next few months. Investors should expect just about anything to happen with this volatile stock. It won't be a smooth ride, that's for sure.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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