



Bombardier, Inc.: Could This Stock Hit \$4 in 2016?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is enjoying a nice recovery, and investors want to know if the rally has legs.

Let's take a look at the current situation to see if the stock deserves to be in your portfolio.

Back from the dead

Bombardier dropped below \$1 per share in January as investors ran for the exits on fears the company was destined for bankruptcy.

The manufacturer hadn't received a new order for its CSeries jets since September 2014, and the plunge in WTI oil prices below US\$30 per barrel made the outlook even worse, or so the pundits thought.

Why?

Analysts figured the jet would be even less attractive to potential buyers because fuel efficiency is a big part of the plane's selling point. With the CSeries program already two years behind schedule and at least \$2 billion over budget, speculation mounted that Bombardier had simply missed its window of opportunity to make the CSeries a success.

Then the wind suddenly shifted and airlines started to buy.

What happened?

Air Canada got the ball rolling with its letter of intent to purchase 45 CSeries jets. The deal isn't firmed up, but both companies say that will happen soon.

Air Baltic then announced it will commit to seven more CSeries jets. This deal came just as rumours began to heat up that the federal government was getting ready to hand Bombardier a big cheque.

The Air Canada news scared the short sellers out of the stock and pulled contrarian types off the

sidelines. As Bombardier moved back above \$1 per share, fears of a reverse split also started to fade. The stock then pushed through the \$1.50 mark and hasn't looked back since. Now, in the wake of a new deal with **Delta Air Lines** for 75 CSeries planes, the shares are above \$2 and investors are hoping for more gains.

Reasons to be cautious

The wave of new deals for the CSeries is certainly good news for the company's employees, but investors have no way of knowing how much Bombardier had to discount the planes to get the latest contracts.

The company admits it has been "aggressive" in its efforts to kick start the CSeries program, and a *Reuters* article suggests Bombardier might have discounted the price by as much as 75% to get the deal with Delta.

Train troubles

Bombardier's rail division is having its own issues. The group is struggling to meet its commitments on a large streetcar deal with the city of Toronto, and a Chinese competitor recently beat Bombardier for big contracts in Boston and Chicago. The missed U.S. deals are a concern because the American market is very important for Bombardier Transport.

Should you buy?

The stock has enjoyed a great run and more CSeries orders could push the shares higher, but investors should be careful about backing up the truck at this point.

The company is still carrying US\$9 billion in debt and the CSeries isn't expected to turn a profit until at least 2020. Bombardier is also at risk of losing a 40-plane CSeries order from **Republic Airways**, which recently filed for bankruptcy.

A surge to \$4 per share by the end of the year would require another wave of new CSeries deals and some positive news from the train division. That's certainly possible, but I think investors who bought the shares near \$1 per share should consider taking some profits, and new investors might want to wait for the delivery of the first CSeries jets before buying the stock.

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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