



Bombardier Inc.: Are More Big Gains on the Way?

Description

Bombardier Inc. ([TSX:BBD.B](#)) is holding steady after its big rally and investors are wondering if they should buy the stock right now.

Let's take a look at Canada's top plane and train maker to see if it deserves a spot in your portfolio.

An impressive rally

It's amazing how quickly sentiment can change.

Just a few months ago investors were betting Bombardier was headed for bankruptcy. The stock dropped below \$0.75 per share, and most market watchers figured the writing was pretty much on the wall.

The company hadn't booked a new order for its troubled CSeries jet since September 2014, and the plunge in WTI oil prices below US\$30 per barrel made the fuel-efficient CSeries even less attractive.

With the CSeries more than two years behind schedule and at least \$2 billion over budget, airlines appeared to be in wait-and-see mode before committing to buy the planes.

Then something strange happened.

The broader market began to rally, and Bombardier suddenly received a wave of new CSeries orders.

As a result, the stock took off, rallying back above \$1 per share. As more positive news hit the wires, the shares continued their impressive run and now sit close to \$2.

What's going on?

Air Canada got the ball rolling with a letter of intent to buy 45 CSeries jets. The deal is important because it was the first contract with a large international carrier. Air Canada still hasn't firmed up the deal, but investors are assuming that will happen in the coming weeks.

The next push came as **Air Baltic** converted an option for seven additional jets to a firm order. The move provided another shot of confidence for the market because it means existing customers still believe in the product.

As rumours swirled that the federal government was on the cusp of handing Bombardier a big bailout cheque, the company signed its biggest deal yet.

Delta Air Lines placed an order for 75 CSeries planes in an agreement that bumped the order book beyond the 300 planes Bombardier initially targeted before putting the first CSeries into commercial operation.

Will the party continue?

Another big order could certainly drive the stock much higher, but new investors might want to take a cautious approach at this point. And those who made a savvy purchase in the dark days of January may consider taking some profits.

Why?

Bombardier still isn't out of the woods. The company is carrying a mountain of debt and is relying on the Quebec government and the province's pension fund to stabilize the balance sheet.

The new orders for the CSeries are good news for the guys and gals who build the planes, but investors should be careful about celebrating too soon. A *Reuters* report suggests Bombardier might have discounted the planes as much as 75% to get the Delta order, so the margins on the planes could be tight.

Bombardier says it is still on track to turn a profit on the CSeries in 2020, but a lot can happen in four years.

Should you buy?

At this point, the easy money has probably been made, and the market appears to be ignoring some other troubling developments.

Republic Airways recently filed for bankruptcy, putting an order for 40 CSeries jets in jeopardy. The deal was already at risk due to changes in the company's business model, but some analysts now believe the order will be cancelled.

Bombardier's rail division is also working through difficult times. The company is struggling to meet its obligations on a large streetcar order for Toronto and recently lost big contracts in Boston and Chicago.

A Chinese competitor won the U.S. deals, so Bombardier Transport could be in for a rough ride in the American market.

The company might be on the verge of a big turnaround, but I would still avoid the stock until money starts coming in from delivered CSeries planes.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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