



Bombardier, Inc.: Will This Stock Regain its Former Glory?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) once traded for \$25 per share, and long-time fans of the company are wondering if a return to the good old days is in the cards.

Let's take a look at the current situation to see if this is the right time to buy the stock.

Tough times

Bombardier's woes are well documented.

The company's CSeries jet program is more than two years behind schedule and at least \$2 billion over budget. The delays and cost overruns have forced Bombardier to take on massive amounts of debt, and cash flows became so challenged last year that management suspended the dividend.

As the situation became progressively worse through 2015, Bombardier was forced to turn to the Quebec government and the province's pension fund to secure US\$2.5 billion in investments to help get the CSeries through the final stretch.

Discussions are currently under way with Ottawa for additional aid.

Investors initially applauded the commitments from Quebec, but things continued to deteriorate as we entered 2016. By the middle of February, investors pretty much gave up on the company, sending the stock below \$1 per share.

Sudden rays of hope

The subsequent rebound over the past three months is nothing short of spectacular, if not bewildering.

What happened?

Air Canada shocked the market in February with a letter of intent to purchase 45 CSeries jets. The order isn't firm yet, but Air Canada says the details should be ironed out in the coming weeks.

Bombardier hadn't sold a CSeries jet since September 2014, so the Air Canada news helped put a floor under the stock.

Air Baltic then announced plans to convert an option for seven jets to a firm order. Two new deals in such a short period was enough to scare away the short sellers, and Bombardier's stock continued its recovery.

The stock pulled back a bit after the initial surge but then shot higher when **Delta Air Lines** signed up for 75 CSeries jets. It's the largest order yet for the new planes and pushes the firm order book above the important 300 planes that Bombardier wanted to have in place before the first CSeries goes into commercial service.

At the moment, the stock trades for \$2 per share.

Ongoing risks

The string of new deals is great news for Bombardier's employees, but investors should be cautious about buying the hype.

Why are airlines suddenly scrambling to buy the CSeries jets?

A *Reuters* article suggests the company is discounting the planes as much as 75% to secure orders in a difficult market. A 50% discount off the list price is not uncommon in the industry, but investors have to wonder how low Bombardier had to go to get Air Canada and Delta to sign on the dotted line.

Management has acknowledged being "aggressive" in the relaunch of the CSeries program but also maintains the CSeries program remains on track to turn a profit in 2020. Unfortunately, investors have no way of knowing how tight the margins are on the new orders.

Should you buy?

A return to \$20 is unlikely in the foreseeable future, and investors who had the guts to get in at \$1 per share should consider booking some profits.

Bombardier is carrying roughly US\$9 billion in debt and still hasn't delivered a new plane. The company is also expected to lose an order for 40 of the new jets due to the bankruptcy filing of a troubled customer.

The CSeries attracts most of the attention, but investors appear to be ignoring troubles in Bombardier's other divisions. The business jet market is in a nasty slump, and the train unit is losing big U.S. contracts to a Chinese state-owned competitor.

Bombardier is finally making some headway on the CSeries program, but there are a lot of moving parts to this story. I would still avoid the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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