



Should You Buy Bombardier, Inc. in Anticipation of a Positive Farnborough Airshow?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is hoping to have a strong showing at the July 11-17 Farnborough International Airshow, and investors are wondering if they should pick up the stock in anticipation of new orders.

CSeries strength

Bombardier hasn't fared particularly well at similar events in recent times. The Paris show last year resulted in a big disappointment as airlines shunned Bombardier and its new CSeries line of jets amid concerns of extended delays and financial woes.

This year investors are hoping the news will be different. Bombardier has firmed up three orders for the CSeries in recent months, and some pundits think more airlines will be motivated to take the plunge.

If you are just starting to follow the story, here is a quick recap:

On June 28 **Air Canada** confirmed its commitment to buy 45 CSeries jets. **Delta Air Lines** placed an order for 75 of the planes on April 28. **Air Baltic** converted an option for seven CS300s to a firm order on April 12. On top of that, Swiss International Air Lines is expected to put its first CSeries into commercial use on July 15.

Are the stars finally starting to align for the CSeries?

Maybe, but investors might want to wait for more good news to come out before they buy the stock.

Why?

Pricing

Analysts widely believe Bombardier offered heavy discounts to get the Delta and Air Canada deals. The company even announced on April 28 that it would take a US\$500 million "onerous contract"

provision related to 127 new CSeries plane orders.

One *Reuters* report suggested the discount for Delta might have been as high as 75% off the list price. Big discounts are normal in the airline industry, but Bombardier might have been extra aggressive to get Delta to sign up.

Other airlines could want similar treatment, so Bombardier might have to weigh the publicity value of announcing a new deal at the show against a need to start selling the planes at more attractive margins.

The company confirmed it is still on track for the CSeries to be cash flow positive by 2020 when it announced the Delta deal.

Should you buy?

The stock drifted back up to the \$2 mark last week in anticipation of the show. Any good news could push the shares higher, so there is a certainly a short-term opportunity to pick up some gains on a big announcement.

The longer-term outlook is still a bit of an issue. The company is carrying a mountain of debt, and while analysts feel its cash needs are probably covered for the next 12-18 months Bombardier will likely need to secure more funds. The money will either come from the federal government or a return to the capital markets. If Ottawa walks away, investors could get hit by a dilutive stock issue.

Most of the media attention is focused on the CSeries program, but Bombardier is also battling with turbulence in the train division. The group is struggling to deliver on a large streetcar order for Toronto and recently lost two big deals in the U.S. to a state-owned Chinese competitor.

The production troubles can be sorted out. The competitive threat from China is a much more concerning story.

At this point, I would just sit back and enjoy the show from the bleachers.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/10/01

Date Created

2016/07/11

Author

aswalker

default watermark