



## Bombardier, Inc.: Is it Time to Hop on Board?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) continues to make progress on its turnaround plans, and investors are wondering if the recent stability in the stock is a signal to buy.

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

### CSeries

Bombardier's woes are primarily attributed to the company's beleaguered CSeries jet program. The project is more than two years behind schedule and at least \$2 billion over budget.

When 2016 arrived, investors pretty much threw in the towel on the stock. The company hadn't received a new CSeries order since September 2014, and dire funding needs combined with a lack of interest from buyers had people running for the exits.

At one point the stock dropped below \$0.80 per share. For long-time shareholders, the dip below a buck was a painful sight. Fifteen years ago Bombardier traded for \$20.

What turned things around?

Just as everyone was ready to give up, the good news finally started to arrive.

In February **Air Canada** signed a letter of intent for 45 new CSeries jets. That put a floor under the stock and scared out the short sellers.

In early April **Air Baltic** converted an option for seven planes to a firm order.

Then the big deal hit the wires, and the stock has been riding high ever since.

**Delta Air Lines** agreed to purchase 75 CSeries planes at the end of April in what could turn out to be the one contract that solidifies the new jet's position in the global market.

Air Canada recently firmed up its order after ironing out some details on service agreements, and that

means Bombardier is well above its target of 300 CSeries purchases.

### Things to watch

The stock rallied above \$2 per share and has more or less been in a tight range around that mark for the past three months. That's a good sign, but investors should be careful about getting too excited.

Bombardier had to get aggressive with its pricing to secure the three deals. In fact, the company has taken a US\$500 million provision connected to the 127 planes sold in the first part of the year.

This has some analysts concerned about margins. Bombardier says it is still on track for the CSeries to generate positive cash flow by 2020, but reports have come out that the company had to drop its price by as much as 75% to secure the Delta deal.

If that's the case, it is understandable why the company left the recent Farnborough Airshow without a new order. Other airlines will want the same deal given to Delta and Air Canada, but Bombardier has to start selling the planes at price points that will make money.

Aside from the CSeries, Bombardier is facing some challenges in the train division. The company has struggled to meet delivery targets on its massive streetcar order for Toronto and recently lost two key rail bids in the U.S. to a state-owned Chinese competitor. The manufacturing issues can be sorted out. The competitive threat from China could be a big problem going forward.

On the funding side of the equation, Bombardier will need more cash in the next two years. Funding from Quebec has already started to roll in and negotiations continue with the federal government. If Ottawa doesn't come to the table, investors could get another shock via a dilutive share sale. Adding more debt is probably not an option.

### Should you buy?

The company is arguably in better shape than it was six months ago, and any report of another big order could send the shares even higher. However, I think most of the good news is already priced into the stock and the market is ignoring some of the other challenges.

If you are determined to own Bombardier, I would at least wait for another pullback before hopping on board.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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