



Bombardier, Inc.: Is This Stock a Safe Pick Right Now?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has enjoyed a nice recovery this year, but investors who missed the rally are wondering if there is more upside on the way.

Here's a quick rundown of what caused the reversal and what might lie ahead.

CSeries back from the dead

Bombardier's first CSeries jet finally went into commercial service earlier this month, roughly two years later than originally planned.

The event signaled a turning point for the company along a long and painful road.

What's the scoop?

Massive cost overruns, extended delays, and lukewarm interest from airlines hammered the balance sheet so badly that investors pretty much gave up on the stock earlier this year. By February Bombardier was trading below \$1 per share.

All hope was apparently lost, but then something completely unexpected happened: the company began to pump out good news.

Air Canada came to the rescue when it signed a letter of intent to purchase 45 CSeries jets. That triggered profit taking by the short sellers and put a floor under the stock.

Negotiations over flexibility on maintenance work had the deal on thin ice for a while, and Air Canada even threatened to walk away in late June before finally committing to the order.

Air Baltic moved an option for seven CSeries planes to a firm order in early April. That helped keep the rally alive, but the big news was still yet to come.

In late April **Delta Air Lines** announced plans to purchase 75 CSeries jets. Suddenly, the beleaguered program had a major U.S. buyer, and investors piled into the stock.

The result?

Bombardier broke through the \$2-per-share mark and has traded close to that number for most of the past three months.

Looking forward

Bombardier says more CSeries orders are on the way. Pundits expected a big announcement at the recent Farnborough Airshow, but the company walked away empty-handed. That might not be a bad thing as it could signal that management is trying to get better pricing for the jets.

The company took a US\$500 million charge on the 127 planes sold in the first part of this year. Bombardier acknowledges it has been “aggressive” in its renewed efforts to sell the new planes, and some reports suggest Delta might have negotiated a 75% discount.

If that’s the case, other airlines will want a similar deal, and that could make it difficult for Bombardier to boost the order book at better margins.

When it reported the Q1 results, Bombardier said it is still on track for the CSeries to deliver positive cash flow in 2020.

We will have to see what comes out at the Q2 earnings announcement on August 5.

Is this a good time to buy?

Bombardier is carrying about US\$9 billion in debt and will have to find more cash in the next couple of years. Quebec has started to supply the US\$1 billion it committed to help the company, but negotiations are still ongoing with the federal government.

If Ottawa agrees to bankroll Bombardier, investors have to ask themselves if they want to own a company with so much government involvement. If Ottawa walks, a large stock issue might be necessary to raise funds, and that would be dilutive for existing shareholders.

Bombardier’s train division is also facing some daunting challenges. The company is struggling to meet its obligations on a large streetcar order for Toronto and recently lost two big rail deals in the U.S. to the Chinese.

Production issues can be worked out, but the long-term threat from a state-owned Chinese competitor in a key market shouldn’t be ignored.

Investors who got in at \$1 per share might want to take some profits. New buyers should probably take a wait-and-see approach at this point.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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Date

2025/10/01

Date Created

2016/08/02

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