



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

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is up 47% in 2016 and has doubled off the February low.

Let's take a look at the current situation to see if more upside could be in the cards.

CSeries revival

Bombardier's misfortunes in recent years are squarely tied to the company's beleaguered CSeries jets.

The program ran into a series of difficulties ranging from development delays to a lack of customers. By early 2016 the market had pretty much decided the whole program was destined to be a write-off.

Why?

Bombardier hadn't received a new CSeries order since September 2014, and with the first delivery more than two years behind schedule, it appeared the world might never see a CSeries make it into commercial service. At the worst of the sell-off, Bombardier's stock plunged below \$0.80 per share.

Then things started to turn around.

The recovery began when **Air Canada** announced in February that it had signed a letter of intent to purchase 45 CSeries planes. That put a floor under the stock and started to bring contrarian investors back into the name.

Air Canada didn't firm up the deal until late June, but the market assumed from the get-go that the order was solid.

In early February **Air Baltic** converted an option for seven of the new jets to a firm order. Later that month **Delta Air Lines** gave the troubled program its biggest credibility boost when it signed up for 75 of the CSeries jets.

Suddenly, Bombardier was comfortably above its target order book of 300, and the stock hit \$2 per share.

The company delivered the first new jet to **Swiss International Air Lines** at the end of June, and the plane went into commercial service in July.

Rail division wins

Bombardier Transport doesn't get as much media attention as the CSeries program, but the rail group is extremely important.

Lost bids in the U.S. and extensive delays on a streetcar contract for Toronto have put the train operations under a cloud in the past couple of years, but the sky might be clearing on that front, too.

Bombardier recently announced two new, significant rail orders. The first is a \$428 million contract to supply commuter trains for Metrolinx, the company that helps move people around the Greater Toronto region. The second deal is a US\$1.3 billion order for 660 new train carriages in England.

Should you buy?

Bombardier appears to be in better shape than it was at the start of the year, but investors should be careful about expecting additional gains in the stock.

The ticker barely moved on the news of the two rail deals and I suspect the market is waiting to see if the company can start to make progress on its stressed balance sheet.

Bombardier is carrying US\$9 billion in debt and has few options other than government aid to help it out.

Quebec and the province's pension fund have already handed over 80% of the US\$2.5 billion they agreed to invest in return for stakes in the CSeries and Bombardier Transport.

That will help cover expenses in the near term, but the company is still burning through about US\$500 million per quarter and will probably need more money in the next 12-18 months.

Margins on the recent CSeries orders are going to be tight, given the US\$490 million "onerous" charge the company recently booked on the 127 planes. Analysts are now concerned other airlines will want similar discounts before they sign up.

The risk of immediate bankruptcy is gone, but I'm not sure there is much upside left in the near to medium term. As such, I would look elsewhere to put new money to work.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date

2025/10/01

Date Created

2016/08/15

Author

aswalker

default watermark

default watermark