



Sell Bombardier, Inc. and Buy Textron Inc. Instead

Description

Earlier this week a spokesperson for **Textron Inc.** ([NYSE:TXT](#)) admitted that it would be interested in buying Learjet, the light business jet manufactured by **Bombardier, Inc.** ([TSX:BBD.B](#)), but only if the price was right.

Well, Bombardier shareholders shouldn't waste their time wondering if this little morsel of news is good for its stock price, because it's not. Bombardier has more serious cash flow problems that won't be solved by hiving off a small part of its business that contributed a grand total of just six planes to the overall sales tally in the first half of the year.

Impressive? Not in the least.

No, serious investors, especially those who want to make money over the long term, should contemplate selling their shares in Bombardier and buying Textron stock with the proceeds. Here's why.

Textron makes money

In the first six months of fiscal 2016 Textron generated earnings before taxes and after interest expenses of US\$475 million on US\$6.7 billion in revenue. On a year-over-year basis, Textron's segment profits and revenues increased 11.7% and 6.2%, respectively.

Bombardier's loss before taxes and after interest expenses for the first half of 2016 was US\$195 million on US\$8.2 billion in revenue. Both numbers on a year-over-year basis were significantly lower than in the same period a year earlier.

Analysts consider TXT a buy

I'm not suggesting that you should take this as the gospel truth because analysts, like everyone else in this world, make mistakes. However, out of 14 analysts covering its stock, eight believe it's either a buy or a strong buy against just one sell and four hold recommendations. On average, analysts have set a 12-month price target of \$47.85—about 17% higher than its \$41 closing price on August 23.

Bombardier has 21 analysts covering its stock with 11 giving it a hold recommendation, another four giving it an underperform rating, and one sell call. Just 24% of analysts are positive on Bombardier stock compared to 57% for Textron.

Textron's balance sheet much healthier

In the most recent quarter ended June 30, Bombardier's adjusted debt was US\$9.3 billion, or 39% of its total assets compared to US\$3.8 billion for Textron, or 25% of total assets. It's a little closer when you net out Bombardier's cash, but Textron isn't losing money.

In terms of leverage, Bombardier's adjusted debt is approximately 9.4 times adjusted EBITDA compared to 2.4 times EBITDA for Textron.

Textron pays a dividend

I'll grant you it isn't much at US\$0.02 per quarter—a rate that's been permanently set since 2009. However, it does buy back its shares. In Q2 2016 it repurchased 6.2 million of its shares for \$215 million. That's almost a 19% return on its investment through August 23.

Bombardier gives you zip.

Drones

Textron's unmanned systems, which includes the commercial development of drones by company, had a great second quarter ended July 2 with the division's segment profit increasing 187% to US\$60 million on US\$487 million in revenue. More importantly, profit margins increased by 580 basis points to 12.3%. Just ask **Amazon.com, Inc.** about the importance of drones.

Bottom line

Fool contributor Ryan Vanzo is big on [Bombardier](#). He believes recent events portend bigger things to come for the company. And while he might ultimately be proven right, successful investing is about preservation of capital ahead of everything else.

For that reason, I'd be much inclined to own the \$40 stock over the \$2 one.

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1. Investing

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1. Editor's Choice

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2. TSX:BBD.B (Bombardier)

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washworth

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