



## Bombardier, Inc.: Is the Rally Running Out of Fuel?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has gone from bankruptcy candidate to rising star in 2016, but recent weakness suggests the stock might have gotten ahead of itself.

Let's take a look at the current situation to see if Bombardier can add to its gains or is setting up for a pullback.

### CSeries saga

Bombardier's drop below \$1 per share in February was largely caused by the company's CSeries woes.

The jet program was more than two years behind schedule and at least \$2 billion over budget. To make matters worse, Bombardier hadn't signed up a new buyer since September 2014.

With airlines refusing to buy and cash flow at a precarious level, Bombardier's remaining faithful started throwing in the towel, despite commitments of US\$2.5 billion from the Quebec government and its pension fund.

Then things began to turn around.

New orders from **Air Canada**, **Air Baltic**, and **Delta Air Lines** helped scare away the short sellers and brought contrarian investors back into the stock. By late April, the stock had rebounded to \$2 per share, and investors were acting as if the company's troubles were completely behind it.

### Pricing concerns

While the immediate sense of despair is gone, Bombardier still has some work to do.

The surge of deals at just the right moment didn't come without a cost. Bombardier booked a Q2 "onerous" US\$490 million charge for the 127 CSeries planes it sold in the first half of the year.

The Quebec government handed over the first US\$500 million of its investment in the CSeries program at the end of June and made the second US\$500 million installment at the beginning of September.

Competitors are crying foul, saying the government aid unfairly allowed Bombardier to win the Delta deal, which was the largest and definitely the most significant. Analysts speculate that Bombardier had to drop its price by as much as 75% to get Delta to sign up.

Moving forward, investors have to wonder if Bombardier will be able to sell more planes at a better margin. Airlines might want the same deal provided to Delta and the other buyers.

### **More delays**

Bombardier delivered its first CSeries jet to **Swiss International Airlines** at the end of June, and the plane began commercial service in July. Swiss received its second CSeries plane in August.

Other customers are going to have to wait a bit longer as Bombardier recently came out with news of further delivery delays. The company is now targeting total 2016 deliveries of seven CSeries planes instead of the 15 the market was looking for in recent months.

Airlines generally don't pay for new planes until they take delivery, so Bombardier's cash flow situation remains a concern.

The company says it will now generate revenue at the low end of 2016 guidance and still plans to hit its 2020 production target of 90-120 CSeries jets. That might turn out to be true, but investors are less convinced with each setback.

### **Train troubles**

Bombardier's rail division has its own challenges. The division is struggling to meet its obligations on a major streetcar order for Toronto and has lost two key contracts in the U.S. to a state-owned Chinese competitor.

The production issues can be sorted out, but the risk of being bumped out of the U.S. market by the Chinese is something investors should keep in mind.

### **Cash situation**

Bombardier has received the US\$2.5 billion pledged by Quebec and its pension fund, so the company should have enough cash to get it through the next 12-18 months. However, additional funds will be required at some point, and the options are limited.

If the government decides to refrain from providing a fresh round of aid, investors could get hammered through a dilutive share issue. Adding more debt on to the existing US\$9 billion is not likely an option.

### **Should you buy?**

Bombardier appears to be back from the brink, but the rally has probably run its course, and the stock could start to give back some gains now that the market is realizing more work has to be done to save

this company over the medium term.

As such, I would avoid the stock today.

## **CATEGORY**

1. Investing

## **POST TAG**

1. Editor's Choice

## **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

## **Category**

1. Investing

## **Tags**

1. Editor's Choice

## **Date**

2025/10/01

## **Date Created**

2016/09/14

## **Author**

aswalker

default watermark

default watermark