



Bombardier, Inc.: Should You Buy the Recent Pullback?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is down 22% in the past month, and investors who missed the monster rally earlier this year are wondering if this is the right moment to own the stock.

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

Debt concerns

Bombardier is carrying nearly US\$9 billion in long-term debt. That's a lot for a company with a market capitalization of about US\$2.75 billion.

The troubled balance sheet can be attributed to problems with the company's CSeries jet program, which has suffered numerous delays causing a budget overrun of more than \$2 billion.

Last fall it became evident the company was facing a serious cash crunch. Returning to the capital markets wasn't an option, so Bombardier was forced to get help from Quebec and the province's pension fund (CDPQ). The two agreed to invest US\$2.5 billion in the business to help Bombardier stay alive.

The market initially cheered the funding commitment, but a lack of orders for the beleaguered CSeries soon had investors betting the government support was not enough to save the company.

At one point in February this year, Bombardier's stock fell below \$1 per share.

Rays of hope

Just as pundits were beginning to write the company's obituary, Bombardier began to soar.

The company received new orders from **Air Canada**, **Air Baltic**, and **Delta Air Lines** and finally delivered two CSeries jets to **Swiss International Airlines**.

Contrarian investors ploughed back into the stock, sending the shares above \$2 on the hopes a recovery was in the works. In recent weeks though, the market has started to question the rebound,

and the stock is falling as a result.

What's up?

Bombardier announced September 6 it will miss another delivery target. The company had hoped to deliver 15 CSeries jets in 2016. The revised guidance is for just seven planes due to production problems at the company's engine supplier.

This is negative for the stock because it means revenue will come in at the low end of guidance for the year.

Bombardier's debt rating just received another downgrade as a result of the news. S&P Global Ratings dropped the company's rating from B to B-, citing higher negative cash flow for the year.

Pundits are also wondering if Bombardier can sell more planes at higher prices. The company booked a special US\$490 million charge in Q2 connected to the planes it sold in the first half of the year.

Analysts had speculated that Bombardier dropped its price significantly to get the Air Canada and Delta deals, and the charge confirmed the suspicions.

New buyers might demand the same discounts, which could either result in fewer new orders or lower margins that would threaten to push out the CSeries breakeven date past the current guidance of 2020.

Should you buy?

Storm clouds are once again brewing over the stock. If Bombardier doesn't come out with some good news on additional CSeries orders at better prices, the shares could continue their retreat.

As such, I would look for other investment opportunities today.

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1. Investing

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1. Editor's Choice

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Author

aswalker

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