Where Does Bombardier, Inc. Go From Here?

Description

Bombardier, Inc. (TSX:BBD.B) is like that bully who, after beating you up, promises to welcome you at the lunch table, only to beat you up again. Since the beginning of February, shares roared from a low of $0.77 to over $2.00 by mid-summer. But since the beginning of September, shares have dropped from a high of $2.16 down to today's $1.62 per share. What's going on, and what should investors do about it?

It helps to understand why shares went up to begin with. Right after shares hit their lows in February, good news began to flow in. **Air Canada** made a purchase order for 45 CS300 planes with an additional 30 if it wants. **Delta Air Lines** made an order for 75 with an option for 50 more. And then in July, Swiss International Air Lines Ltd. actually received its first two CS100 aircraft. The company loves the plane and said that the CSeries has much higher reliability than its competitors.

But it wasn't just the airline division that was doing well; Bombardier's railway division had finally turned around.

In August the company won a US$1.3 billion contract to supply the U.K. with 660 carriage trains. The German regional rail authority LNVG contacted Bombardier to do vehicle service and maintenance. And Abellio Rail Südwest is paying Bombardier US$244 million to supply 43 trains. This comes after a ton of really bad news, in which Bombardier couldn't deliver on streetcars to Toronto or upgrade the automatic train control in the London Underground.

Everything was pointing to the company continuing to go up, and I even wrote an article titled "Bombardier, Inc. Has Finally Turned Around." My thesis was simple … once Bombardier started to get paid for the CSeries and had its railroad division humming again, I'd be more bullish.

But then reports came out in the beginning of September that it was going to miss its delivery target for 2016. Bombardier had initially planned to deliver 15 CSeries jets to its customers. But due to supply chain problems at its engine supplier, it'll only be able to deliver about seven planes to its customers this year.

Due to this news, S&P Global Ratings hit the company's credit rating, lowering it from B to B-. S&P's

rationale is simple: if Bombardier isn't bringing in a certain amount of revenue, it's debt becomes riskier. I can't fault S&P for modifying its rating. Debt is a real problem. Bombardier is sitting on US$9 billion in long-term debt. If it wasn't for government bailouts, that debt would have buried the company.

What should investors do?

If you own shares, you may want to consider selling, but that depends on when you got in. If you were lucky to buy at February lows, doubling your money in nine months is pretty sweet (though be cautious about short-term taxes).

However, if you're considering buying, I'm in the camp of waiting for more information. There remain too many unknowns, and this stock could go lower again as investors grow tired of the perpetual delays. But if its suppliers can gain control of their supply chains, Bombardier could have a brighter 2017. I would wait for now and reevaluate in a couple months.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Date
2025/08/18
Date Created
2016/09/28
Author
jaycodon