



## Bombardier, Inc.: Is the Sell-Off Over?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has staged a nice rebound in recent days, and investors are wondering if this the beginning of a new leg up in the 2016 rally.

Let's take a look at the airplane and train maker to see if it deserves to be in your portfolio today.

### Ongoing struggles

Bombardier's shareholders have been on a wild ride this year.

The stock fell below \$1 per share in February as disgruntled investors dumped the shares on fears the company was headed for bankruptcy.

At the time, they had good reason to be afraid.

Bombardier hadn't sold a CSeries jet since September 2014, and with WTI oil near US\$30 per barrel, there wasn't much incentive for airlines to buy the new fuel-efficient planes.

In fact, as oil fell, many companies had decided to buy or lease older planes that are less efficient but much cheaper.

This had pundits talking about a missed opportunity for Bombardier's new jets. When oil was US\$100 per barrel, the CSeries was an attractive option for carriers, but the program has struggled with extended delays and entered 2016 at least two years behind schedule and \$2 billion over budget.

Cash flow became an issue last year, and Bombardier had to turn to the Quebec government and the province's pension fund for commitments of US\$2.5 billion. The support came in the fall and initially helped the stock, but concerns about the US\$9 billion in debt and a weak outlook for CSeries revenues soon outweighed the bailouts.

### Turnaround

Then things started to turn around and the stock took off.

Bombardier announced new CSeries deals with **Air Canada**, **Air Baltic**, and **Delta Air Lines** and finally delivered its first new jets to **Swiss International Air Lines**.

The positive news scared some of the short sellers out of the stock and brought in contrarian investors hoping the rally would be the start of a longer-term rise in the shares.

### **Devil in the details**

The stock held its gains near \$2 per share from late April until early September, but then fell below the \$1.60 mark last week.

What happened?

Investors started to take a hard look at the numbers.

Analysts had suspected Bombardier dropped its price significantly to get the new CSeries deals. One report suggested the company might have given a discount as high as 75% to convince Delta to sign its agreement.

Bombardier said it had been “aggressive” in its efforts to secure new orders, and it appears the analysts’ concerns were correct on heavy discounts.

When Bombardier released its Q2 earnings, the company booked an “onerous” US\$490 million charge on the 127 planes sold in the first part of the year. Management said it is still on track for the CSeries to hit positive cash flow in 2020, but the market isn’t convinced.

A new CSeries delay also hurt the stock.

On September 6 Bombardier reduced its 2016 CSeries delivery target from 15 planes to just seven. The result will be lower-than-expected revenue this year, which isn’t great news for a company that is burning through cash at an impressive rate.

### **Should you buy today?**

Bombardier’s debt rating just received another downgrade, and the company could have a tough time finding new CSeries buyers at higher prices.

Analysts think Bombardier will need more cash in the next 12-18 months. If the federal government doesn’t pitch in, another large stock issue could be in the cards, and that would hit existing shareholders.

The stock jumped in recent days on news of a big order for the rail division in the United Kingdom, but the bigger picture is still a bit cloudy for the company as a whole, and I wouldn’t be surprised if the latest surge is short-lived.

As such, I would look for other investment opportunities.

### **CATEGORY**

1. Investing

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1. Editor's Choice

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