



Bombardier, Inc.: Is This Stock Attractive Today?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has provided investors with an exciting year, and those who missed the rally are wondering if positive developments in recent months indicate more gains might be on the way.

Let's take a look at one of Canada's most-followed stocks to see if it should be in your portfolio.

CSeries drama

Bombardier's CSeries troubles are well known.

The flagship program has struggled from the outset, running at least two years behind schedule and more than \$2 billion over budget.

As a result of the delays and cost overruns, the company has been forced to load up on debt, shelve the dividend, and sell significant interest in the firm to the Quebec government and its pension fund, the CDPQ.

How much did Bombardier need?

Quebec handed over US\$1 billion for 49.5% of the CSeries program and the CDPQ kicked in US\$1.5 billion for a 30% stake in Bombardier Transport, which is the train division.

Despite the announcement of the bailouts last fall, Bombardier's stock continued to lose altitude as fears about a lack of CSeries orders sent investors running for the exit.

At one point in February this year, the stock price fell below \$1 per share, and many analysts were preparing for a possible bankruptcy.

Then things began to turn around.

Air Canada, Air Baltic, and Delta Air Lines signed up for a total of 127 new CSeries jets, pushing the order book above Bombardier's target of 300 planes before commercial operation.

Bombardier then delivered its first CSeries plane to **Swiss International Air Lines**, marking an important milestone in the beleaguered program.

Short sellers booked profits, and contrarian types bought up the stock in the hopes of a big rally. Those who got in at \$1 had a chance to double their money from late April through early September, but the stock has since come under some pressure.

What's the concern?

Bombardier announced September 6 that it would only deliver seven CSeries planes in 2016 instead of the 15 previously targeted. The problem lies with the company's engine supplier, but investors got nervous and dumped the stock.

Investors are also wondering when the next CSeries sale will come.

Analysts have speculated the company had to be extremely aggressive to secure the new deals earlier this year. A US\$490 million Q2 charge taken against the 127 planes suggests the pundits were correct. This could make it difficult for Bombardier to convince additional airlines to pay a higher price.

Back on track?

The sell-off found a bottom when Bombardier announced September 30 that it had sealed a train deal worth about \$1.1 billion in the United Kingdom.

The rail division needed some good news as it has also struggled in the past couple of years. Bombardier Transport lost two large orders in the United States to a state-owned Chinese competitor and has endured a very public scolding from city officials over its extensive delays on a large streetcar order for Toronto.

Should you buy?

The company is still burning through cash, and analysts believe Bombardier will need more money in the next 12-18 months. The company won't be able to issue new bonds at an affordable rate, given the low rating on the existing US\$9 billion it already borrowed, so the funds will likely have to come from the federal government or a stock issue.

Neither situation is particularly attractive for shareholders.

Any further CSeries delays could put added pressure on cash flow, forcing the company to find money sooner than expected.

Things might work out fine in the long run, but I would avoid the stock for now.

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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