



## Bombardier, Inc.: Is This Stock Still Risky?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has bounced back from the dark days of February, and investors are wondering if the stock is finally safe to buy.

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

### Aerospace issues

Bombardier's pain in recent years is primarily tied to its aerospace division. The market for business jets has fallen on hard times, and Bombardier's new CSeries line of passenger jets has struggled to get off the ground.

What's going on?

Bombardier used to be the world leader in the business jet space, but funding issues and weak market conditions forced the company to reduce production on its Global 5000 and 6000 business jets and postpone the launch of its Global 7000 and 8000 jets. Bombardier also shelved its Learjet 85 program.

As a result, the company has fallen behind its competitors in the business jet space, and analysts are concerned Bombardier might struggle to regain its leadership position.

Business jets have taken a back seat to the new CSeries program, which has suffered extensive delays and huge cost overruns. Meanwhile, the company's debt load has ballooned to US\$9 billion, and management had to sell part of the company to Quebec and the province's pension fund, the CDPQ.

Quebec handed over US\$1 billion for a 49.5% stake in the CSeries business, and the CDPQ chipped in US\$1.5 billion for a 30% position in the rail group, Bombardier Transportation.

The cash injections have stabilized the balance sheet for the near term, but Bombardier will eventually need more cash.

## Are things really improving?

The stock traded below \$1 per share in February as investors started to worry about a possible slide into bankruptcy. The company hadn't received a new CSeries order since September 2014, and low oil prices suggested airlines wouldn't be as interested in paying a premium for the new fuel-efficient jets.

Bombardier then secured large orders from **Air Canada** and **Delta Air Lines** and followed up with its first delivery of the CSeries to Swiss International Air Lines.

As a result, the stock rallied and held most of its gains through the end of August, but storm clouds began to form again in September.

What's up?

On September 6 Bombardier announced it will only deliver seven new CSeries planes in 2016 instead of the 15 it had originally targeted. This means revenue will come in at the low end of guidance and cash burn is once again a concern for analysts.

The lack of follow-on CSeries orders is also weighing on the minds of investors. Bombardier was aggressive in its efforts to secure the Air Canada and Delta deals and took a US\$490 million Q2 charge connected to the sales. One report suggested the company had to reduce its price by as much as 75% to secure the Delta purchase.

Going forward, other airlines might demand similar discounts, and that could make it difficult for Bombardier to improve margins on new CSeries sales. At the moment, the company says it is still on track for the CSeries program to be cash flow positive in 2020.

## Is Bombardier safe to buy?

The debt load remains a concern and further delays in CSeries deliveries could push out the timeline for the division to start turning a profit.

If Bombardier gets aid from Ottawa, another government partner would join the mix. If Ottawa takes a pass, Bombardier would likely have to raise cash through a very dilutive share sale. Neither situation is overly attractive from the point of view of investors.

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

## CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

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