Bombardier, Inc.: A Buy at $2?

Description

Bombardier, Inc. (TSX:BBD.B) is up 15% in the past month, and investors are wondering if the stock is attractive at the current price of $2 per share.

Let's take a look at the latest developments to see if more upside could be on the way.

Earnings results

Bombardier's Q3 2016 numbers were not overly impressive, but the stock jumped on better than expected results.

For the third quarter Bombardier reported US$3.7 billion in revenue compared to US$4.14 billion in Q3 last year. The company had an adjusted net loss of US$10 million compared to US$2 million in net income in Q3 2015.

Transportation revenue fell 10%, business aircraft revenue fell 15.7%, and commercial aircraft revenue rose 12% in the quarter compared with last year.

When it all shakes out, the company broke even on a per-share basis. The market had expected a loss of $0.03.

Liquidity

The company finished Q3 2016 with US$4.4 billion in available short-term capital resources. Bombardier received US$1 billion in 2016 from Quebec and US$1.5 billion from the province's pension fund to help finance the struggling CSeries jet program.

The company burned through US$320 million in cash in the third quarter, bringing the 2016 total to US$1.6 billion.

Guidance

Bombardier said it is on track to generate full-year 2016 revenue of US$16.5 billion, which would be at the low end of its previous forecast. Full-year earnings before interest and taxes (EBIT) will be US$350-400 million, which is up from the previous range of US$200-400 million.

Overall, the market appears to have let out a sigh of relief that things aren't getting any worse, and pundits are acknowledging the new management team is making progress on efforts to get costs under control.

The big picture

Bombardier is still carrying nearly US$9 billion in debt. That's a lot for a company with a market capitalization of about US$3.5 billion.

Cash burn is slowing, but analysts still think more funding will be needed in the next 12-18 months. A trip back to the bond market is probably out of the question, so the money will likely come from Canadian taxpayers. If Ottawa refuses to pony up, Bombardier could be forced to raise funds through another large share issue, which wouldn't be great news for existing holders of the stock.

On the revenue front, there isn't a lot to cheer about.

As we saw in the year-over-year results, the market for business jets remains weak. That used to be the high-margin side of the business.

Bombardier Transport recently picked up a large rail order in the U.K., but the division lost two key train deals in the U.S. in the past couple of years. The transportation unit is struggling to meet commitments on a streetcar contract with Toronto and was just given notice by Ontario that Metrolinx intends to cancel a $770 million LRT deal signed in 2010 for up to 182 Bombardier LRVs.

The pilot LRV was supposed to be delivered in 2014, but Bombardier still hasn't supplied the first unit.

After a two-year delay, deliveries of the first CSeries jets helped boost Q3 commercial jet revenue, and the program appears to be stabilizing on the back on large orders from **Air Canada** and **Delta Air Lines**, but the company is still struggling to hit its targets. Bombardier said it will deliver seven CSeries jets this year instead of the 15 it had anticipated.

Going forward, investors are wondering if Bombardier will be able to attract new CSeries buyers without having to drop the price as significantly as it did to secure the 2016 deals.

Should you buy?

Things are better today than they were at the beginning of the year, but the 100% gain in the stock since February means the improved situation is probably priced in right now.

Some pundits say Bombardier is attractive at $2 per share. I don't see much near-term upside left unless the company announces another big CSeries order.

At this point, the long-term outlook still remains cloudy, so I would avoid the stock.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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