



## Bombardier, Inc.: Are Better Days on the Horizon?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has stabilized in the past six months, and investors are wondering if the beleaguered plane and train maker is finally out of the woods.

Let's take a look at the current situation to see if Bombardier should be on your radar right now.

### Debt burden

Bombardier finished Q3 2016 with US\$8.9 billion in long-term debt. That's a significant load for a business that only has a market capitalization of about US\$3.2 billion.

Cash and cash equivalents totaled US\$3.4 billion at the end of the quarter, which sounds like a lot, but the company is burning through significant funds to get the CSeries jet program to the point where it can be cash flow positive, so investors shouldn't get too excited about the hefty sum in the bank account.

The company recently bought itself some breathing room through the issuance of US\$1.4 billion in new notes due 2021. The debt carries a coupon of 8.75%, and Bombardier sold the notes at a 1% discount to the par value.

Proceeds will be used to redeem existing 7.5% notes due in March 2018 and 5.5% notes due in September 2018.

The fact that Bombardier found buyers for new debt is positive, but the high interest rate and the discount should give investors a bit of a heads up as to how risky the market still thinks Bombardier is right now.

For the moment, Bombardier should have enough funds to get it through 2017 or even into the first half of 2018.

### CSeries progress

Bombardier's CSeries program is responsible for most of the company's troubles. The first new jets were finally delivered this summer, so the program is now capable of generating some revenue, but cash burn is still an issue.

Bombardier will only deliver seven CSeries planes in 2016 instead of the original target of 15.

New CSeries deals earlier this year helped the stock rise 100% off the low, but those sales were heavily discounted, and Bombardier might find it difficult to get new buyers at better margins.

For the moment, Bombardier says it remains on target for the CSeries division to be cash flow positive in 2020.

## **Train business**

Bombardier just announced a US\$246 million deal with Montreal to operate and maintain the city's commuter rail fleet for the next eight years. Given the fact that Bombardier is a Quebec-based company, the contract isn't much of a surprise.

The company has some other notable wins in recent months. Bombardier secured a large contract in the U.K. and received an order for 125 additional commuter cars for the Go Transit operations in Toronto.

At the same time, the City of Toronto is furious with Bombardier over delays on a large streetcar deal, and Metrolinx, which is Ontario's regional transport agency, recently threatened to cancel a \$770 million contract signed in 2010 for 182 Bombardier LRVs.

Metrolinx can't be too upset, though, considering it gave Bombardier the additional Go Transit deal in August.

Bombardier has large manufacturing operations in Canada and the U.K., so investors will probably see the company continue to win deals in these countries.

In the U.S., the situation is different, and Bombardier has taken two big hits in the last couple of years, losing contracts in Boston and Chicago to Chinese competitors.

## **Is this stock a buy?**

Bombardier is in better shape than it was at the beginning of 2016, but the company still has severe challenges. Debt remains an issue, the rail division has production and competition problems, the CSeries is still burning through too much cash, and the market for business jets is in a severe slump.

As a result, I would look for other opportunities today.

## **CATEGORY**

1. Investing

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1. Editor's Choice

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1. Editor's Choice

### Date

2025/09/30

### Date Created

2016/11/23

### Author

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