



Bombardier, Inc.: Could This Stock Soar in 2017?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is working its way through a difficult period, but the stock has stabilized, and investors are wondering if 2017 is destined to provide strong returns.

Let's take a look at the current situation to see if Bombardier should be on your 2017 buy list.

CSeries progress

Bombardier's troubles in recent years are primarily tied to its struggling CSeries jets.

The program has been plagued by severe cost overruns and multiple delays, which put the balance sheet under so much stress late last year that the company had to get financial support from the Quebec government and the province's pension plan, the CDPQ.

Bombardier received commitments of US\$2.5 billion from the two groups, but the stock still continued to slide, bottoming out below \$1 per share in February 2016.

Then things began to turn around.

Air Canada and **Delta Air Lines** signed large CSeries orders, and Bombardier made its first CSeries deliveries. This scared the short sellers out of the stock and brought in contrarian investors who think the worst is over.

As a result, the shares rallied back above \$2 and have traded close to that mark for several months.

Bombardier just delivered its first CS300 to **Air Baltic** and says it will have a total of seven CSeries planes in the hands of customers by the end of the year. This is less than the 15 planes it had hoped for, but investors are just pleased to see some revenue finally coming in from the CSeries program.

Ongoing issues?

Bombardier says it is still on track for the CSeries business to be cash flow positive in 2020. Some pundits are concerned the target might be a bit optimistic given the steep discounts provided to get the

Air Canada and Delta deals.

No new CSeries orders have been signed since the spring, and that could be due to other airlines holding out for rock-bottom pricing.

If Bombardier can't get new orders at better margins, the profitability date could be pushed out.

Rail division

Bombardier Transport is also working through some difficult times.

The train group is behind on deliveries for its massive streetcar contract with Toronto. The city has publicly scolded the company for its failure to meet several deadlines and is considering a lawsuit.

Metrolinx, which is responsible for Ontario's regional transport operations, recently filed notice to cancel a \$770 million contract signed with Bombardier in 2010 for 182 Bombardier LRVs. Bombardier still hasn't delivered the first unit.

On the sales side, the story is mixed. Bombardier Transport has won new deals in Ontario, Quebec, the U.K., and France in recent months, but it has also been outbid by a state-owned Chinese competitor in the past couple of years on two significant rail deals in the United States.

The U.S. market is important for Bombardier, and the losses could spell trouble in the future if the Chinese deliver the trains as promised.

Debt situation

Bombardier just issued new debt to replace notes that were coming due in 2018. This gives the company some breathing room, but Bombardier is paying a lot more for the money, and that will put added pressure on the cash situation.

The notes being replaced paid 5.5% and 7.5%. The new ones carry a coupon of 8.75% and were sold at 99% of par value.

Should you buy for 2017?

Bombardier's worst days are probably behind it, but I wouldn't expect a big move in the stock price in 2017 unless the company secures another major CSeries deal at better margins.

The debt situation remains a concern, and further CSeries delays could put added pressure on the revenue stream.

As such, I would look for other 2017 contrarian opportunities.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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