Can Bombardier, Inc. Finally Take Off?

Description

Bombardier, Inc. (TSX:BBD.B) appears to finally be taking off. The company's stock price is up approximately 50% year-to-date. The CSeries has finally been launched. The company is experiencing a wave of positive news. For a company with a lot of fundamental problems, investors appear to be more hopeful than ever with Bombardier, pushing the stock price toward its 52-week high.

New $331 million contract

The most recent positive announcement is the company's recently announced $331 million eight-year rail contract with the city of Montreal. This contract is an extension of an existing train-maintenance contract with the city of Montreal, in which Bombardier will continue to maintain the Agence Metropolitaine de Transport's (AMT) fleet of 41 trains and 264 coaches, as well as operate these trains.

The reason I'm focusing on this contract is because it appears it is representative of the new direction Bombardier is taking toward becoming sustainable in the long term. If Bombardier is able to continue to grow its services business in the rail business segment and get its airline business under control, the company may actually have a long-term competitive shot.

New revenue model

This large service contract is an example of the change Bombardier has been making to its revenue model in recent years. The company now takes in approximately 29% of all new train contract revenues as service contracts and is committed to growing its higher-margin, value-added services portfolio. This move toward sustainable, higher-margin revenue is a welcome move for long-term investors, who now have a reason to take another look at Bombardier.

Bombardier has been very successful in its RFP bids for service contracts of late. The company claims that Bombardier has secured every service contract it has sought out over the past 18 months in North America. Of these contracts (amounting to $1.4 billion), Bombardier has engaged in two other notable contracts with municipal agencies in Los Angeles and San Diego.

Same old problems

As a long-term investor concerned with the long-term viability of Bombardier, I have previously boycotted the company (and a number of other companies, for that matter) from the list of “investable” companies I would consider for my portfolio, due to Bombardier’s dual-class share structure.

There are certain fundamentals I look for in companies that I would consider for my long-term portfolio (for example, I look for a company I would want to hold for more than 10 years) as well as certain factors that would unanimously eliminate such companies from consideration.

I have written about Bombardier’s dual-class share structure in the past, and for now, I’m sticking with my guns. A large short-term revenue or earnings boost just wouldn’t be enough for an investor such as myself to take the long-term risk associated with the current share structure of Bombardier.

As a speculative short-term play, some investors may find value here, but it’s not for me.

Stay Foolish, my friends.

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1. TSX:BBD.B (Bombardier)

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