



## Bombardier, Inc.: Is the New Rally Sustainable?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) is up 18% in 2017.

Let's take a look at one of Canada's most-followed stocks to see if it deserves to be in your portfolio.

### Back from the brink

What a difference a year can make!

At this time in January 2016, Bombardier was losing altitude at an incredible rate, as investors bailed out on fears the company was headed for bankruptcy.

The concerns were certainly valid.

Bombardier hadn't secured a new order for its beleaguered CSeries jets since September 2014, and falling oil prices made it less likely that buyers would step up to the plate for the fuel-efficient jets.

Despite US\$2.5 billion in funding commitments from Quebec and the province's pension fund, investors looked at the cash burn and the US\$9 billion in debt and simply threw in the towel, sending the stock price below \$1 per share.

Then things began to turn around.

**Air Canada**, **Air Baltic**, and **Delta Air Lines** ordered a total of 127 new CSeries planes, pushing the order book above Bombardier's pre-delivery target.

The company then delivered its first CSeries in the summer and has made progress on its cost-cutting initiatives.

Investors have flocked back to the stock, which now trades for more than \$2.50 per share. That's a triple on your money if you had the guts to get in at the bottom.

## Will the rally continue?

Bombardier is certainly in better shape than it was a year ago, and additional CSeries orders from major carriers could send the stock much higher.

At this point, however, investors should be careful about chasing the rally.

Why?

Bombardier's debt situation is still a concern. The company recently replaced notes that were coming due in the near term with ones that carry a higher interest rate, and the CSeries isn't expected to break even on a cash flow basis until 2020.

In fact, CSeries margins remain in the spotlight. Bombardier took a US\$490 million "onerous" charge in Q2 2016 connected to the jets it sold in the first half of last year.

Discounts are part of the game, but analysts speculate the company had to drop its price by as much as 75% to get the Delta deal. Air Canada is believed to have also negotiated a very attractive price.

Going forward, investors will be looking for evidence of better pricing on new sales to ensure the program hits its profitability target date.

## Should you buy?

Bombardier looks like a stock that wants to soar, and the huge retail interest in the name could very well send it higher in the near term.

Given the strong gains already chalked up in the past two weeks, I would be inclined to sit back and wait for a sell-off before buying the stock.

There are still significant risks for the business, and the optimism might be getting a bit ahead of itself.

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