



Bombardier, Inc.: Is it Time to Get Off This Train?

Description

It has certainly been a very interesting time for investors of **Bombardier, Inc.** ([TSX:BBD.B](#)). The stock price reached a depressing low in the middle of February and traded under \$0.80 per share. Fast forward to today, and the price is trading right around \$2.50 — an improvement of 220%.

Investors that got in around that time can't help but feel like there are serious profits to be had. And for those sitting on the sidelines, there's a question about whether the price can continue to go higher or if they should venture elsewhere for investment riches.

There are some factors to consider when making that decision.

A factor to consider is the rail side of the business. Bombardier trains are world renowned, and the company has done rather well competing with competitors in other parts of the world. And with US\$31 billion in backlog orders from its global clients, on the surface, things look very good for the rail division.

Unfortunately, things are not that good. Bombardier has been experiencing tremendous delays in delivering goods from contracts that have been signed for years. In Toronto alone, there are two outstanding deals.

The first is to provide Metrolinx with 182 light-rail vehicles, which Bombardier was slated to receive \$770 million for. However, the first train was supposed to be delivered in 2014, and Bombardier delivered it at the end of 2016. Metrolinx has been considering finding a different supplier of the trains, which would be a big loss for Bombardier.

And the other deal is to provide 204 replacement streetcars for the Toronto Transit Commission (TTC) by 2019. The deal was signed in 2009, and by 2015, it had only delivered 14. The TTC has considered suing Bombardier to recoup costs from having to keep its old trains in the fleet longer.

As you can see, things are not so good for the rail business, and if Bombardier can't get its operation squared away, that US\$31 billion in backlog orders could go elsewhere.

Another factor to consider is the CSeries. In 2016, the CSeries finally launched, and there have been

sales, which is a big must for any investor that is considering investing. But we don't yet know just how much money Bombardier is earning on these planes. Recall that it was forced to take a US\$490 million charge in Q2 2016 because its margins on the 127 planes it sold in 2016 were not all that high.

Now, this charge was obviously necessary because the planes were so delayed, and Bombardier needed to get some planes in the air for its clients. However, if the margins on future plane sales are also low, this could be a precursor to a lot of bad news going forward. I expect to see the margin increase for the CSeries throughout 2017.

So, the question current and potential investors are asking is, what will happen now?

Current investors should consider taking some money off the table. When you're looking at a 200% increase, it helps to recoup some money to put elsewhere. However, if Bombardier does rally, you don't want to miss that. As for potential investors, I think there are far better options out there. Bombardier could continue to improve, but there remain too many unknowns. For now, I'd be on the sidelines.

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