



## Bombardier, Inc.: Should You Buy the Latest Dip?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has pulled back in the past month, and investors are wondering if this is a good opportunity to add the stock to their portfolios.

Let's take a look at Canada's iconic plane and train maker to see if it is attractive today.

### Government aid everywhere

Bombardier recently announced a funding deal with the Federal Government for \$372.5 million. Ottawa will provide the aid in the form of repayable loans to be handed out over the next four years.

The company had initially asked for US\$1 billion to help it work through the final stages of its CSeries jet program, but Bombardier's financial situation has since improved.

The deal comes on the heels of US\$2.5 billion in assistance provided by Quebec and the province's pension fund in 2016. Quebec invested US\$1 billion to acquire a 49.5% position in the CSeries business, while the CDPQ provided US\$1.5 billion for a 30% stake in Bombardier Transport, the group that makes trains.

Reports suggested Ottawa wanted changes in the company's dual-class ownership structure in return for more money. In the end, it appears Bombardier didn't need the cash bad enough to give in to those requests.

Why did Ottawa blink?

The Liberal government currently holds more than half of Quebec's seats in the House of Commons, and Bombardier is an important provider of high-paying jobs in the province, so it was widely expected that some aid would be provided.

How should investors react?

The fact that Ottawa is providing significantly less cash than Bombardier initially asked for is probably a

positive sign in that it suggests the company's cash situation is not as dire as it was at this time last year.

However, you have a company that is heavily reliant on government funding to keep it alive, which isn't usually a good starting point when evaluating a business as an investment.

## Outlook

Bombardier is certainly in better shape now than it was 12 months ago, but the stock has also tripled in value, even after the recent pullback.

While the company is making progress on cost reductions, and the CSeries program finally has some planes in commercial operation, more work has to be done.

The train division continues to struggle with manufacturing delays on contracts for Toronto and Ontario's Metrolinx, and there are some concerns about margins on CSeries sales.

Why?

Large CSeries orders from **Air Canada** and **Delta Air Lines** last year probably saved the company, but Bombardier took a US\$500 million charge in Q2 2016 related to the planes it sold in the first half of last year, which suggests the company had to drop its prices significantly to get the deals. Going forward, investors will want to see new orders come in at more profitable levels.

Debt also remains a concern, and Brazil's latest complaint filed with the World Trade Organization (WTO) over Ottawa's recent aid package could put some added pressure on the stock.

## Should you buy now?

I would avoid the stock at the current level.

Investors who are positive on the company's prospects, should at least wait for the Q4 2016 numbers and 2017 guidance to come out February 16 before making a decision to buy. The stock is still flying high and any negative news in the earnings release could trigger some profit taking.

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