Bombardier, Inc.: Improvements or More of the Same?

Description

Is **Bombardier, Inc.** (TSX:BBD.B) a good investment?

That's the eternal question which potential investors have been pondering. The beleaguered manufacturer of planes and trains has traded on positive and negative developments over the past few years, and that has done little to improve the company's ailing finances.

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This past week, Bombardier continued with more of the same, once again leaving potential investors contemplating their next move.

Business jet market is finally improving

One of Bombardier's core segments is manufacturing smaller, business-oriented jets. While the CSeries program has taken the lion's share of news (and capital) over the past few years, the business jet market has lagged, primarily because of weak global demand.

Bombardier CEO Alain Bellemare recently noted that the slump in the business jet market was nearing the bottom, and that a resurgence would be seen later this year or next. Business jet sales count on large corporations as a primary source of sales, and a U.S. economy resurgence could translate into a windfall for Bombardier, which already has a business jet backlog of over $15 billion.

Bombardier has targeted 135 business jet deliveries for this year, which should provide $5 billion in revenue, but the biggest driver will be Bombardier's next project: the Global 7000.

The Global 7000, a large business jet, was developed alongside the CSeries. Last November, the 7000 had its first test flight, and assuming there are no delays from testing, it will enter service towards the end of 2018.

What about Bombardier's turnaround?

Bombardier is in the midst of a very long turnaround. The CSeries project was the largest project the company ever embarked on, and it was a drain on resources and capital. While the CSeries is now flying and getting positive reviews, the project was over two years late and $2 billion over budget.

That gap was the primary driver for the Montreal-based manufacturer to slash costs and seek funding from both Quebec and the Federal Government.

Bombardier has already eliminated 6,000 jobs over the past two years, which should translate into US$600 million in savings. The first chunk of those savings was reflected in the recent quarterly results, where Bombardier showed some improvement in terms of boosting free cash flow to US$496 million — over US$200 million more than what analysts had projected — but the company still posted a loss of $0.07 per share. In the same quarter last year, Bombardier broke even.

The signs are everywhere that Bombardier is improving, but the company still has a long way to go before it can be a great investment opportunity. Even the CSeries, for all the positive sentiment and reviews, still has a weak order book that doesn't extend past the next few years.

New aircraft typically require up to a decade or more of production and deliveries before turning a profit.

Deliveries is another area of concern which investors should be cognizant of. Bombardier has developed a knack of missing delivery windows. Just ask both Metrolinx and the TTC in Toronto, who have been waiting years for new LRT vehicles and streetcars.

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Bombardier has pushed the blame on to faulty parts, a Mexico-based facility, and quality control issues. The LRT vehicles for Metrolinx will be used on new transit lines set to open in 2021. A prototype test vehicle was supposed to be delivered two years ago, and since then Bombardier has changed the delivery date of that vehicle 30 times.

If Bombardier can begin to deliver on schedule, perhaps orders will pick up and the company will become an intriguing investment opportunity. At this time, however, Bombardier is too risky an investment.

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