Is Bombardier, Inc. a Buy Right Now?

Description

Bombardier, Inc. (TSX:BBD.B) has enjoyed a nice recovery in the past year, and investors who've watched the rebound from the sidelines are wondering if they should step in and buy.

Let's take a look at the current situation to see if Bombardier should be in your portfolio.

Recovery mode?

A year ago, investors could pick up Bombardier for about $1 per share. Today, you'd have to fork out $2.50 to buy the stock.

The brave souls who took a shot during last winter's chaos are certainly sitting on some nice gains, but long-term holders of the stock might not be as impressed.

Five years ago, Bombardier traded for more than $4 per share. In the middle of 2008, the stock traded at $8, and if you go all the way back to the glory days of 2000-2001, the shares traded hands for more than $20 each.

So, depending on how you see things, Bombardier is either full of fantastic potential or it's a long-term dud that should be avoided at all costs.

Positive developments

Bombardier is certainly in better shape now than it was at this time last year.

The company has a robust order book for its troubled CSeries program and finally has some of the new planes in commercial operation.

Big orders from **Air Canada** and **Delta Air Lines** probably saved the firm last year. The agreements pushed the order book above Bombardier's initial target of 300 planes and ended a sales drought that extended all the way back to September 2014.

The company delivered seven of the jets in 2016 and expects to hand over at least 30 of the planes this year.

On the funding side, Bombardier received US$2.5 billion from Quebec and the province's pension fund, the CDPQ, in 2016.

Quebec handed over US$1 billion for a 49.5% stake in the CSeries program and the CDPQ invested US$1.5 billion for a 30% position in Bombardier Transport.

Ottawa and Bombardier spent all of 2016 at the bargaining table and recently announced additional aid. The Federal Government will provide $372.5 million in repayable interest-free loans handed out over the course of the next four years. Bombardier says it might take 15 years to pay the money back.

Bombardier had initially asked Ottawa for US$1 billion, so the much smaller amount might be viewed as a positive sign that the company is no longer facing a cash crunch.

Concerns

Bombardier is still carrying more than US$8.7 billion in long-term debt and says the 2017 cash burn will be at least $750 million as the business continues to ramp up its CSeries program.

The refinancing of $1.4 billion in debt late last year provides some breathing room, but investors have to consider the debt situation when evaluating the stock.

The company reported weaker-than-expected numbers for Q4 2016, as difficult conditions in the rail and business aircraft segments led to lower year-over-year revenue.

Bombardier is struggling to meet delivery obligations on a streetcar order for Toronto and is trying to block Ontario's Metrolinx from cancelling a 2010 order for 182 light-rail vehicles.

The pilot vehicle was supposed to be delivered in 2014, but it has been delayed several times.

Should you buy?

Bombardier is making progress on its turnaround efforts, but more work has to be done.

If you have a contrarian investing style and think another significant CSeries order is on the way this year, there could be some upside on a positive announcement.

At this point, however, I would prefer to see the company on more solid footing before committing some money. The heavy debt load, ongoing difficulties in the rail group, and a weak business jet market are significant concerns.

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