Should You Buy Bombardier, Inc. After the Recent Pullback?

Description

Contrarian investors are always searching for beaten-up stocks that could be on the verge of a turnaround.

Let's take a look at **Bombardier, Inc.** (TSX:BBD.B) to see if it is attractive right now.

Big recovery

Bombardier had a nice rally from below $1 per share in early 2016 to $2.75 in January this year.

The stock has since pulled back to the $2 mark, and investors are wondering where things are headed next.

On the positive side, the company's CSeries order book is in good shape after **Air Canada** and **Delta Air Lines** came to the rescue last year. The deals probably saved the company from a trip to bankruptcy protection, and brought important stability to the stock through the second half of 2016.

Bombardier also delivered its first CSeries planes to customers last year. Seven of the jets were shipped by December 31, and Bombardier expects to see at least 30 more go into commercial operation in 2017.

This means the program is finally generating some revenue after years of delays and cost overruns.

Risks?

Bombardier expects to burn through at least $750 million in 2017, so there is still a ways to go before the CSeries program hits the point where it breaks even. This is an ongoing concern for investors who would like to see new deals for the planes done at better margins.

Bombardier took a U$500 million charge in Q2 2016 against the planes it sold in the first half of last year.

Debt also remains an issue.

Interest rates are expected to rise in the United States, which could make refinancing more expensive in the coming years. Last year Bombardier had to replace notes that were coming due with new debt that carried higher interest rates.

Bombardier currently has about US$8.7 billion in debt, which is a lot for a company with a market capitalization of about US$3.4 billion.

Weakness in other segments

Bombardier's CSeries program gets most of the attention, but the business jet and rail divisions are also facing some challenges.

The Canadian government recently agreed to provide Bombardier with loans to assist the company's Global 7000 business jet program. Market demand remains weak, although Bombardier believes the segment should improve in the second half of this year.

On the train side, rail revenue dropped 3.4% in 2016 compared to the previous year. Bombardier is struggling to meet delivery targets on a streetcar order for Toronto, and is trying to stop Ontario's Metrolinx from cancelling its 2010 order for up to 182 light-rail vehicles.

Should you buy?

Bombardier is working through its turnaround process, and a new CSeries order from a major airline could quickly send the stock back toward the recent high.

At this point, however, the ongoing risks are significant, and while the stock is more attractive now than it was in January, I would stay on the sidelines until there is proof the company can sell the CSeries at higher prices.

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