



## Bombardier, Inc.: Is it Safe to Buy Now?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) has given back all of its 2017 gains, and investors are wondering if this is a good opportunity to buy the stock.

Let's take a look at Canada's plane and train maker to see if it deserves to be in your portfolio.

### Merger speculation

Bombardier's shares jumped last month on rumours the company might be talking to **Siemens AG (ADR)** (NASDAQOTH:SIEGY) about putting their rail divisions together.

Bombardier's train group doesn't get as much media attention as the beleaguered commercial jet business, but it is a key part of the business and is facing its own problems.

What's going on?

The rail unit is struggling to meet its delivery targets on a streetcar order for Toronto. At the same time, Ontario's Metrolinx is trying to cancel a light-rail vehicle contract signed in 2010.

Metrolinx wants to exit the contract because it says Bombardier has failed to deliver a prototype of the new vehicles on time. Bombardier is contracted to deliver up to 182 LRVs and maintains it can provide the vehicles in time for the new transit lines to meet their operation dates.

The Ontario Superior Court of Justice recently blocked Metrolinx's effort to end the agreement, so investors are still unsure what will happen with the deal.

### Other concerns?

Aside from manufacturing delays, Bombardier Transport is facing strong competitive threats.

The company lost two key contracts in the United States in recent years to Chinese state-owned firms. The wins were the first for the Chinese in the American market and show how focused the country is on winning deals around the globe. If the Chinese can deliver the trains on time for the Boston and

Chicago contracts, it could spell trouble for Bombardier in the important U.S. market.

What about the Siemens deal?

Partnering with Siemens might help fortify Bombardier Transport's ability to compete in the coming years. Investors should pay close attention to the Q1 2017 earnings announcement to see if Bombardier provides any indications on a potential deal.

### **CSeries issues**

Bombardier's CSeries jet program is largely responsible for the stock's weak performance in the past few years.

Extended delays and costly overruns put the balance sheet at risk, and while the company received US\$2.5 billion in commitments from Quebec and the province's pension fund to shore up the cash position in late 2015, the shares continued to tumble, falling below \$1 in early 2016.

Large orders from two major carriers and the delivery of the first CSeries planes triggered a recovery in the stock through most of last year, and the rally topped out near \$2.75 in January 2017.

The shares currently trade for about \$2.10.

**The Boeing Company** recently filed a complaint to the U.S. government alleging that Bombardier is "dumping" its new CSeries planes into the United States market at below cost.

**Delta Air Lines** is one of the companies that placed large CSeries orders last year, and analysts have speculated Bombardier had to drop its price significantly to get the deal.

Boeing has asked the Trump administration to issue an order to prevent the CSeries planes from being sold in the United States.

### **Should you buy?**

Bombardier is making progress on its turnaround efforts, but challenges remain in both the rail and jet businesses.

The stock is certainly cheaper than it was a few months ago, but I would keep any contrarian bets limited to a small position at this point.

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