Is Bombardier, Inc. Finally Back on Solid Ground?

Description

It's been a rocky period for **Bombardier, Inc.** (TSX:BBD.B) investors over the past few years, and that's an understatement, to say the least.

Investors who'd held Bombardier in their portfolios at the start of 2015 would have seen the value of their shares drop an astonishing 75% in just 12 short months. And this was supposed to be one of Canada's heralded blue-chip companies, and one of the world's leading transportation firms.

The dividend was cut, and there was a host of questions about the company's short-term liquidity, and the company's solvency had suddenly come into question.

Many wondered if this spelled the end for Bombardier. At one point, shares traded as low as $0.72.

How did it get this bad?

Most of the problems stemmed from the company's troubled CSeries program.

In developing the CSeries, a family of narrow-body, twin-engine, medium-range jet airliners, the program had been plagued by technical delays and cost overruns.

In the fourth quarter of 2015, the company took a nearly $5 billion impairment charge which amounted to $160 for every man, woman, and child,in the company's home province of Quebec.

CDPQ to rescue

Less than three weeks later, Caisse de dépôt et placement du Québec (CDPQ) announced it had signed a deal with Bombardier for $1.5 billion that would see the investment arm acquire a 30% stake in Bombardier's Transportation business.

The tide is turning…

The show of good faith by CDPQ has done a lot to reassure investors that Bombardier has secured solid financial backing and put to rest some of the more damning concerns that Bombardier was at risk of becoming insolvent.

Slowly but surely, Bombardier is digging itself out its hole. The company narrowed its net loss to just $0.02 in Q1.

Looking ahead, the company is expected to reverse that loss to a $0.07 profit in fiscal 2018.

Bombardier shares trade at 28 times, which isn't exactly cheap, but if the company is able to sustain its current pace of progress in line with the deal it signed with CDPQ, investors should expect to see that P/E multiple come down.

And while the company's shares trade at a 28 times P/E, Bombardier's cash flow is considerably cheaper.

Bombardier shares trade with a price-to-cash-flow ratio of 14.8 times, meaning the company is "earnings poor, and cash rich," which is actually a good thing for investors.

After all, dividends and other expenses are paid in cash, not earnings.

Should you buy?

The most compelling argument in favour of a purchase in Bombardier shares is the valuation the company is currently getting in the market compared to its peers.

As of this writing, the stock trades at just 0.3 times price-to-sales, while the average among other aerospace and defence companies is 0.5 times, or a 67% premium to Bombardier's share price, and yet there are other companies that operate in the space that trade as high as one times sales.

If it's true that Bombardier's disaster with the CSeries program is firmly in the rear-view mirror thanks to the deal with CDPQ, investors would be unwise not to consider BBD.B shares for investment.

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