



Bombardier, Inc.: The Easy Money Has Already Been Made

Description

Bombardier, Inc. ([TSX:BBD.B](#)) reported its first quarterly profit in two years on July 28. It also raised its full-year guidance for EBIT earnings to as much as \$630 million — a sign the company is getting back on its feet.

Bombardier's stock gained almost 5% in July 28 trading. While investors should never look down their noses at an increase of this size, you would think the news that it made a quarterly profit, its first in eight tries, would warrant a big celebration.

However, much like the average taxpayer who's already spent their tax refund before it's even arrived in their bank account, investors had already pushed Bombardier's stock higher in 2017 — up almost 12% through July 27. After a little more good news about its CSeries aircraft post-earnings, its stock gained another 6% since then through August 18.

What has Bombardier accomplished?

If you ask the Canadian Taxpayers Federation, absolutely nothing.

“The aerospace industry in Canada resembles a giant pyramid scheme, with taxpayers at the bottom of the pyramid. Based on the ‘aerospace is special’ argument (often backed up with the sage ‘every other country does it’ argument), Canadian taxpayers have the privilege of subsidizing an entire industry top to bottom,” wrote Aaron Wudrick in the *Hamilton Spectator* August 20, director of the Canadian Taxpayers Federation.

Bombardier runs out a Q2 2017 EBIT profit of US\$164 million — a 55% increase over last year. That's impressive until you consider that it did so by using US\$570 million in free cash. Typically, you want positive free cash flow, not negative.

It's burning through cash with no sign the CSeries is ever going to deliver enough planes at full price to make it worthwhile.

On June 30, 2016, Bombardier had US\$3.4 billion in cash on the balance sheet. One year later, despite making money in the second quarter, it finished the end of June with 34% less cash at US\$2.2 billion.

A significant debt problem

On the debt front, Bombardier's long-term debt is US\$8.8 billion — about US\$200 million less than a year ago. However, its net debt has increased by 16% over the past 12 months to US\$6.6 billion from US\$5.7 billion.

The company's goal is to have adjusted debt that is no more than 2.5 times adjusted EBITDA. Despite a 55% increase in EBIT profits in the second quarter, its adjusted debt to adjusted EBITDA hasn't budged from 9.7 — almost four times its objective.

At the same time, **Boeing Co.** ([NYSE:BA](#)) has a debt-to-EBITDA ratio of 0.9. To put it another way, it has net cash of \$200 million; that's \$6.8 billion higher than Bombardier.

Few deliveries

Bombardier delivered just 36 aircraft in the second quarter; that's six less than the same quarter a year ago, and only six of which were the all-important C-Series, which the Canadian taxpayer is on the hook for.

The Canadian Taxpayers Federation is right to question the notion that our aerospace industry is special. That's its job. As for investors, your only job is to make money.

From where I sit, the easy money has already been made. Getting to \$5 is going to take an awful lot of good news. Frankly, if you read between the lines, that news is simply not going to be forthcoming.

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