Can Bombardier, Inc. Stock Really Sustain a Comeback?

Description

Bombardier, Inc. (TSX:BBD.B) has long struggled with cost overruns and delays in its CSeries jets and transportation projects. Today it is faced with a new, but also ongoing struggle.

How will it get the business back to improved profitability, revenue growth, and cash flow generation?

Subsidies

As far as Bombardier is concerned, subsidies have been a part of life forever.

From government subsidies for the CSeries jets to Quebec introducing a bill to help Bombardier get the Montreal subway car fleet renewal contract, Bombardier has a long history of subsidies.

But then again, the aircraft manufacturing industry is a big beneficiary of subsidizing in general; **The Boeing Co.** (NYSE:BA) has also received big "gifts" from all levels of the U.S. government system.

It is a business that is highly capital intensive with low margins, and subsidies have kept these businesses in the game.

Poor performance

But while this did work for a while, and Bombardier stock was a market darling in the late 1990s, everything imploded shortly thereafter, with cost overruns and missed deadlines catching up to the company.

These issues remain an ongoing problem for Bombardier.

As an example, Metrolinx, which is in charge of transportation for the Greater Toronto Area, awarded the company the $1 billion contract for 204 streetcars to be delivered by the end of 2019.

And Bombardier is nowhere near fulfilling this order in this entirety, with many production deadlines being missed, and the production schedule now being very back-end loaded. Despite the fact that ithas set up new production lines to meet this deadline, we have good reason to be skeptical.

Supply chain issues and manufacturing problems have been blamed for the missed deadlines, and while it looks like production has been ramped up, the company has not inspired confidence in its ability to handle this project.

As a result, in its order for light-rail vehicles, Metrolinx has stated that it will only accept 76 light rail vehicles of the 182 originally ordered from Bombardier; a competitor of Bombardier has been invited into the process.

The transportation segment, which accounts for over 50% of the company's total revenue, saw a 12% increase in revenue in 2017, but these production delays continue to destroy the reputation of the company.

Turnaround plan

Bombardier launched a a five-year plan, or turnaround program, to enhance shareholder value creation in 2015.

The goal is to increase revenue by $4 billion to greater than $20 billion, hit EBIT margins of more than 8%, and to generate sustainable free cash flow of between $750 million and $1 billion a year by 2020.

In 2017, revenue was $16.2 billion, pretty much flat compared to 2016 revenue, EBIT (before special items) was 4.1% compared to 2.6% in 2017, and the company was free cash flow negative to the tune of $786 million.

It appears that while the company does have some redeeming qualities, the road ahead will be long and hard.

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