



Bombardier, Inc.: Next stop, \$10?

Description

Well, colour me surprised.

Bombardier, Inc. ([TSX:BBD.B](#)) hit a 52-week high of \$5.24 June 18, the first time it's been above the \$5 mark since 2013. Bombardier has a market cap of almost \$13 billion, so the founding families must be feeling pretty good about their investment at this point.

Can it last? More importantly, is \$10 a real possibility in the next 12-18 months?

Yes, it's a possibility

As I said at the outset, I'm probably the last person who should be talking about Bombardier's upside. I have been in the bear camp in the previous two years, but I'm always willing to change my mind if given enough evidence the turnaround is real.

Here's what I most recently said about Bombardier:

"I have never been a fan of Bombardier, [calling](#) the company out on several occasions, including most recently this past September. I just don't see it being a \$5 stock, let alone one that trades in double digits," I wrote January 4, 2018. "For every positive step forward it takes — such as the Airbus deal on the CSeries — Bombardier takes two backward — the Metrolinx deal was cut in half, and it lost the sale of a Global 6000 private jet — due to an inability to deliver on time and a penchant for surrounding itself with less than honourable individuals."

So, what's changed?

Bombardier's [handsomely paid](#) management team is doing what they said they would do, delivering higher margins, revenues, and free cash flow, all the tenets of a healthy business. It doesn't hurt that analysts have given them easy EBIT estimates to jump through in the nine quarters since taking over in February 2015.

Add to this a "buy" rating from **Goldman Sachs Group Inc.** with a 12-month price target of \$7 and a tentative 75-aircraft CS300 order from Moxy Airways, the low-cost airline start-up from David Neeleman, founder of **JetBlue Airways Corporation**, and it's easy to see why the stock is trending

higher.

Also, Bombardier was so financially strapped in 2015, it resorted to selling 27.5% of its transportation division to the Caisse de dépôt et placement du Québec. Now with up to \$4 billion in cash expected to be on its books by the end of fiscal 2018, Bombardier may buy back Caisse's stake.

You don't do that if you're still in dire straits.

No, it's not going to happen

Bombardier will forever be the company that feeds at the government trough. Yes, every aircraft manufacturer does it, but when the company is controlled by two families holding just 13% of the equity, it rubs a lot of investors the wrong way.

In my January article, I'd suggested that until the company was generating GAAP profits, **Boeing Co.** CEO Dennis Muilenberg does a better job earning his pay in my opinion than Alain Bellemare.

In the trailing 12 months ended March 31, 2018, Bombardier had an operating profit of \$514 million on \$16.6 billion in revenue. However, because of its \$9.2 billion in debt, it had a GAAP loss of \$484 million.

Business is getting better, but that debt is still a major headwind to Bombardier stock hitting double digits.

The bottom line on Bombardier stock

Although I still wouldn't invest in its stock, the odds of it hitting \$10 in the next 12-18 months is easily better than 50/50 at this point.

That's not something I would have expected to say even six months ago.

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