



Bombardier, Inc. (TSX:BBD.B): Buy The Stock on the Dip or Sell?

Description

Bombardier ([TSX:BBD.B](#)) investors are looking at the 13% drop in the stock price over the past month and wondering if the pullback is an opportunity to add the shares to their [portfolios](#) or a signal to take profits.

Let's take a look at the current situation to see if Bombardier deserves to be in the portfolio right now.

Earnings

Bombardier reported Q2 2018 results on August 2. The stock initially popped after the report came out, but has since returned the gains and extended the recent losses.

One reason that the market might not be impressed is that Bombardier is still burning through significant funds. The company had negative cash flow of \$370 million for the second quarter. That result was in line with guidance, and Bombardier claims that it is on track to hit its full-year break-even target on the metric.

Revenue rose 3% in the quarter compared to the same period last year, supported by 11% growth in the Transportation group, or 6% after currency adjustments. This is the division that makes trains and streetcars, as well as the related signaling systems.

The rail division has had its share of difficulties in recent years, including the ongoing challenges the company faces in delivering on its streetcar contract for the Toronto Transit Commission. Manufacturing problems have resulted in delays, and Bombardier has recalled some of the units to fix welding issues.

On the positive side, Bombardier opened a new assembly facility in Germany in June, and received strong orders for service contracts in the first half of the year.

The Business Aircraft division launched the new Bombardier Global 5500 and 6500 jets during the second quarter. The aircraft are upgrades on the Global 5000 and 6000 models and should go into service in 2019. Bombardier sold its Downsview property for net proceeds of \$600 million in the quarter

and plans to build a new final assembly plant for the jets at Pearson International Airport in Toronto.

Revenue in the division was \$2.4 billion for the first half of 2018. The company delivered 34 aircraft in Q2 for a total of 65 so far in 2018. Bombardier says it is on track to hit deliveries of 135 business planes for 2018 with revenue meeting guidance of \$5 billion. Margins are holding above the 8% target.

Airbus took control of the CSeries commercial aircraft program on July 1, 2018. The planes have since been named A220 to fit in with the Airbus portfolio. Airbus owns 50.1% of the A220 program, while Bombardier retains a 33.55% stake and Investissement Quebec owns 16.44%.

Bombardier's stock jumped on initial enthusiasm that Airbus will be able to secure significant new orders for the planes. A deal with **JetBlue Airways Corporation** and another commitment from a U.S.-based start-up are a good start, although the market had anticipated better results coming out of a recent airshow.

Should you buy?

The drop in the stock from \$5.40 per share to below \$4.70 might seem tempting, but I would stay on the [sidelines](#). The recovery is going to be a slow process and the rally in the stock from the 2016 lows near \$0.80 per share to the current level has likely priced in most of the good news.

Other opportunities might be more attractive today.

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