



## Can Bombardier Inc. (TSX:BBD.B) Stock Keep Up This Year's Big Gains?

### Description

**Bombardier Inc.** ([TSX:BBD.B](#)) has been experiencing an incredible run this year. Starting the year off at just \$2.96, the stock has rocketed more than 50% to \$4.51. This year's big gains come after a troubled period for the company. Due to issues with the company's [CSeries jet production](#), its stock cratered in 2015, and returns are still negative over a five-year period. But now the company's earnings and revenues are on the upswing—and the market seems to be taking notice.

The big question for anyone considering investing in Bombardier is whether the company can continue the upward trajectory it has been on since 2016. To answer that question, we need to look at the company's history.

### CSeries jet woes

Bombardier suffered some serious setbacks over its CSeries jet project. The CSeries was a narrow-bodied, twin-engine, medium-range jet airliner. Initially, the company had high hopes for the plane. Management estimated the market for 100-to-149 passenger jets to be worth \$250 billion over 20 years, and projected to capture 50% of that revenue with the CSeries. This would have represented \$125 billion in total revenue, or \$6.25 billion a year.

Unfortunately, the project ran into serious problems. Order cancellations slowed development down, resulting in multiple delays. Further delays were caused by problems during testing, including engine failure and failure to meet advertised performance. Initially estimated at \$3.5 billion, the CSeries encountered serious cost overruns and wound up costing the company \$6 billion. Eventually the aircraft was sold to **Airbus SE**, which rebranded it the A220. Despite the buyout by Airbus, Bombardier wound up with a very over-leveraged balance sheet.

### Recovery

Since ceding control of the CSeries project to Airbus, Bombardier has been on the path to recovery. It's still involved in manufacturing the jet; however, its sales no longer count as revenue for Bombardier. Additionally, Bombardier has agreed to cover cash shortfalls for what is now Airbus's project until 2021. This could pose risks for the company, especially if the project continues to encounter cost overruns.

Nevertheless, Bombardier's numbers are on the upswing. After cutting its revenue forecasts, the company is now seeing steady sales and earnings growth. The company reported a net income of \$70 million for Q2 2018, up from a \$243 million loss in Q2 2017.

### **Bottom line**

It's clear that Bombardier has come a long way since the CSeries fiasco and the financial problems it caused. Earnings are climbing steadily, and sales are up in every area of the business except aerospace. Obligations under the deal with Airbus remain an area of concern, as they require that Bombardier cover any cash shortfalls should they occur. However, Airbus is reporting strong demand for the A220 and the project is now moving along smoothly.

Assuming present trends continue, this once-beleaguered company might be a buy.

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andrewbutton

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