Bombardier, Inc. (TSX:BBD.B): Has The Pullback in the Stock Price Gone Too Far?

Description

Bombardier (TSX:BBD.B) is down about 20% in the past two months, and investors who missed the big rally that took the share price to new multi-year highs are wondering if they should buy today.

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

Balance sheet

Bombardier finished Q2 2018 with U.S. $9.1 billion in long-term debt. At the current exchange rate of about 1.32, that translates into debt of $12 billion, which is a lot for a company with a market capitalization of $10.5 billion.

To be fair, the stock's recovery from $0.80 per share in early 2016 to the current level of $4.30 is a huge improvement, but Bombardier had to borrow at some fairly high interest rates, and the payments are eating into cash flow. In fact, Bombardier had financing expenses of US$325 million in the first six months of the year.

Cash burn, excluding proceeds from an asset sale, was US$1.1 billion through the first two quarters of 2018, so Bombardier is still not out of the woods and definitely not in a position to begin paying dividends again.

Airbus deal

Airbus officially took 50.1% control of the CSeries program July 1, and has renamed the aircraft A220 to fit in with the company's portfolio of planes. Under the agreement, Bombardier has a 33.55% ownership position in the partnership and Investissement Quebec owns 16.44%.

Investors have high hopes that Airbus will be able to bring in more large orders for the jets, but aside from announcements from **JetBlue Airways Corporation** and a new startup in the United States, things have been pretty quiet. Bombardier had to do deals at heavily discounted prices to save the program, which could work against Airbus as it tries to convince other airlines to sign up.

Planes sold to U.S. buyers will be made by Airbus in the United States.

Rail troubles

Bombardier's rail division has its own challenges. The group has struggled with manufacturing and delivery delays on orders, which has had a negative impact on new deals. The company lost bids for transit rail deals in Boston and Chicago to Chinese state-owed competitors. Bombardier was also left out in the cold when suppliers were picked in February for the expansion of Montreal's transit network.

In addition, French and German train makers **Alstom** and **Siemens** are trying to merge in an effort to better compete with the Chinese in the global rail market. If the merger is approved and closes as planned in the first half of 2019, Bombardier Transport's long-term future is going to be hotly debated.

Should you buy?

Bombardier is certainly in better shape than it was in early 2016, but the rally in the share price off the lows probably has all the good news covered, even after the big drop in the stock price from the 2018 high.

As such, I would look for other opportunities today.

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