Should Bombardier, Inc. (TSX:BBD.B) Stock Be in Your Portfolio?

Description

Canadian plane and train maker **Bombardier** (TSX:BBD.B) has delivered some impressive returns for investors who had the courage to buy the stock when the market worried the company might be headed for bankruptcy.

Let's take a look at the current situation to see if Bombardier remains an attractive pick for your portfolio.

Big rebound

In early 2016, Bombardier's share price dipped below $1 amid fears the company's CSeries woes would force management to seek creditor protection. The company had received US$2.5 billion in commitments from Quebec and the province's pension fund, but it hadn't helped amid a lack of orders for the new jets.

Air Canada then came to the rescue, signing up for a major CSeries purchase. A few months later, **Delta Air Lines** took advantage of a huge discount and placed its own substantial order. Those contracts helped drive the share price back above $2 and Bombardier has been on the upswing ever since, hitting a 2018 high above $5.40 this summer, before giving back some of the gains.

At the time of writing, Bombardier trades for $4.50 per share at writing.

Opportunities

The U.S. didn't like the fact that Delta was getting its CSeries planes at such low prices, claiming that the sale represented "dumping" and was subsidized by Quebec. Duties of nearly 300% were put on the planes that would be imported to the U.S., and the Delta deal suddenly looked at risk. As a way to get around the issue, Bombardier agreed to sell 50.1% of the CSeries business to **Airbus**.

The European plane producer has facilities in Alabama that will build the planes destined for U.S. customers. The tariffs were subsequently dropped and Airbus changed the name of the planes toA220, after it took control this summer.

In theory, airlines worldwide should feel more comfortable buying the A220 now that it's part of Airbus, but new orders haven't rolled in as quickly as expected. Airbus is unlikely to give the same discounts that Bombardier was forced to offer, so it might take some time to secure additional large deals.

Overall, the planes that are in service are getting strong reviews and the rise of oil prices over the past year should make the fuel-efficient A220 more attractive.

Risks

Bombardier's rail division is now the focus of investor concern. The group has struggled with manufacturing issues and delivery delays on contracts, including a large streetcar order for the Toronto Transit Commission. The widely publicized battle between the TTC and Bombardier might have had an impact on some lost bids in the past few years.

Specifically, Bombardier lost out on large orders in Boston and Chicago that went to Chinese competitors. Bombardier also missed out on a deal with Montreal earlier this year.

The long-term outlook for the transport group is up in the air, especially if European competitors **Siemens** and **Alstom** get approval to merge.

Bombardier's balance sheet remains an issue. The company is carrying significant debt and continues to burn through cash. In the Q2 2018 report, Bombardier said it had negative free cash flow of US$1.1 billion in the first half of 2018, excluding proceeds from an asset sale.

Long-term debt stood at US$9.1 billion at the end of June. That's about $11.6 billion in Canadian funds, which is a lot for a company with a market capitalization of $11 billion.

Liquidity stood at US$4.2 billion at the end of Q2, so the company has ample available cash for the next couple of years.

Bombardier shelved the dividend in 2016 and investors probably won't see the payouts come back for some time.

Should you buy?

Bombardier isn't at risk of going bust today, but uncertainties remain. The rally in the stock off the lows probably covers the improved situation, so I would look for other opportunities right now.

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