Could Bombardier Inc. (TSX:BBD.B) Stock Make Investors Rich Again?

Description

There was a time when **Bombardier Inc.** (TSX:BBD.B) stock made many investors big money.

I'm talking about the late 1990s and those investors who were astute enough to lock in their gains, as the stock rode from under $3.00 in 1994 to over $25.00 in 2000.

This stock was a lesson in knowing when to sell as opposed to a buy and hold lesson.

At least the company has survived, but it isn't what is once was.

Bombardier stock has come down a bit since this summer, and is trading at $3.73 at the time of writing, with a one-year return of 22%, as the company has embarked on real change in order to drive down its cost profile.

If you're willing to accept the risk, then you will get the reward — maybe.

Because while many stocks are worth the risk, Bombardier has shown time and time again that the risk is very real.

But is this time different?

The company has certainly made it through the days when it was hanging by a thread, amid liquidity concerns, and extremely negative investor sentiment.

Years of cost overruns, high debt levels, the inability to meet order deliveries according to schedule, and weak margins have certainly taken a toll on the company.

The fact is that although the recent capital raise put Bombardier on a stronger footing, these deep grained issues run too deep to take the stock out of speculative territory, at least for now.

Capital spending will remain elevated over the next year or so, debt levels are still high, and management and the company still need to prove themselves.

Furthermore, a soft demand environment for its jets and planes remains.

In 2015, the company launched a five-year plan, or turnaround program, to enhance shareholder value creation. The goal is to increase revenue by $4 billion, to greater than $20 billion, hit EBIT margins of more than 8% and generate sustainable free cash flow of between $750 million and $1 billion a year by 2020.

The company has many hurdles to overcome, and the path forward will not be an easy one.

However, we can at least say that the company's transit division, which accounts for 50% of its revenue, will likely see strong growth drivers, as there is an increasing demand for mass transit solutions.

In Europe, the race is on for energy-efficient, battery operated, environmentally friendly transit solutions.

In the developing world, the increasing trend toward urbanization will drive demand.

Bombardier is a leader in this area, but this is not a slam dunk, as Bombardier must do its part to secure this growth opportunity.

Supply chain issues and manufacturing problems have been blamed for missed deadlines with its Canadian transit projects, and while it looks like production has been ramped up, the company has not inspired confidence in its ability to handle transportation projects in general.

That's a big hurdle to overcome.

Hopefully one that the new CEO and his new plan will effectively address.

In summary, while Bombardier clearly has good potential growth tailwinds ahead, this stock is not for the faint of heart, and only investors who are prepared for this elevated risk profile and the potential volatility and losses should invest in it.

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