



## Is Bombardier, Inc. (TSX:BBD.B) Stock Headed to \$2?

### Description

If you bought **Bombardier** ([TSX:BBD.B](#)) in mid-July, you're probably getting a little anxious given that Bombardier stock has dropped 37% since hitting a 52-week high of \$5.58 halfway through the summer.

The history of this stock suggests you ought to have a plan B because there's a real possibility it could be heading back into the \$2s.

### The case for it to rebound

While you don't hear much about Bombardier's business aircraft, now that the CSeries is under the watchful eye of **Airbus**, CEO Alain Bellemare can devote more time growing that part of the company's aviation business.

On October 16, Bombardier released its third-quarter deliveries and backlog information, and the numbers were very promising.

The company delivered 31 business aircraft in the quarter and have now delivered 96 business jets year to date, putting it more than 70% through its planned deliveries for 2018.

Regarding backlog, Bombardier now has \$14.3 billion in future aircraft business, leading the industry.

"We are seeing strong demand for our Global aircraft family rivalled only by the continued strong performance of our Challenger franchise, which we estimate outperformed each competitors' medium-category deliveries by a ratio of 5 to 1 or higher in the third quarter," said President of Bombardier Business Aircraft David Coleal.

It's nice to know that Bombardier has something else to rely on other than the CSeries and its train business. It's the unsung hero of the company.

Another potential source of growth not yet in the headlines is the parts business. Fool contributor Nelson Smith recently [suggested](#) the company use its expertise to branch out into other areas of the aviation business. He even offered an interesting twist on fighting the competition: you join them by selling them parts made by their very own suppliers you've acquired.

It's not a bad idea.

Up until this summer I'd been one of Bombardier's harshest critics. By June, investors, including yours truly, could see that the company's financials were getting stronger and that it was on track to generate as much as US\$150 million in positive free cash flow from \$1 billion in EBIT profits in fiscal 2018.

That's a fantastic turnaround, one I thought could lead Bombardier to a [double-digit stock price](#) within 12-18 months.

Unfortunately, turnarounds are never in a straight line. A lack of hard news over the summer sent investors elsewhere. Once it announces its Q3 2018 results, I'm sure any good news will bring them back.

### **The case for it to keep sliding**

For me, three things keep me from totally buying into the Bombardier story.

The first is its debt. At the end of the second quarter, Bombardier had \$9.0 billion in long-term debt, about equal to its total market cap at the moment. The interest on that debt is almost US\$700 million on a trailing 12-month basis leaving very little for reinvestment in the business.

Second, as Fool contributor Andrew Walker [pointed out](#) recently, Airbus has no interest in selling the A220 at a massive discount as Bombardier did, so it's going to sit on selling the plane until buyers are willing to fork over more money for each aircraft.

Bombardier needs Airbus to sell lots of planes. Unfortunately, Airbus doesn't need Bombardier for much of anything, putting Bellemare in a waiting game.

Third, although Bellemare is trying to weed out the bad apples, Bombardier has a taint of corruption and mismanagement that follows it, whether we're talking about suspect train contracts, government subsidies and loans, or a dual-class share structure that allows the founding families to control the business with just 13% of the equity.

Bellemare has a lot more work to do if he wants to convince investors that the OLD Bombardier has left the building.

### **Is it \$2 or \$5?**

Bombardier announces its third-quarter results on November 8. We'll know more about the company's progress on the financial front. The business aircraft segment is definitely pulling its weight.

As I said in July, if you own BBD.B stock, I'd keep holding. By November 9, you'll know whether you want to buy more or head for the exit.

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