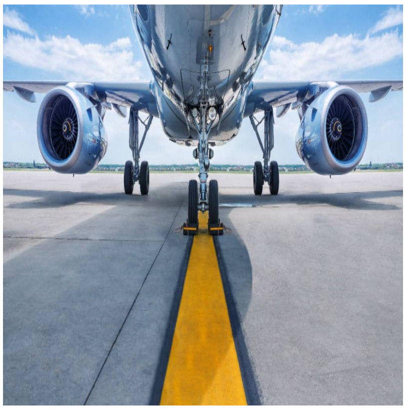

Is Bombardier, Inc. (TSX:BBD.B) Stock Simply Too Cheap to Ignore?

Description

Bombardier (TSX:BBD.B) has taken a beating in the past few months and investors are wondering if the major sell-off is an indication of more pain to come, or a great contrarian opportunity to buy the stock.

Let's take a look at the current situation to see if Canada's plane and train maker deserves to be on your buy list.

Debt

Bombardier is carrying about US$9.5 billion in long-term debt. As a manufacturer of jets and rail transit systems, it is normal for the company to use debt to get it through the development and production of its products before finally shipping them to customers and getting paid.

However, the process requires the company to generate cash flow as expected, and the past few years saw Bombardier run into lengthy delays on both rail transit deliveries and CSeries (now Airbus A220) orders. This resulted in major cost overruns as well as a revenue shortage that eventually led to financial assistance to the tune of US$2.5 billion from Quebec and that province's pension fund.

The debt situation was a big reason the stock fell below $1 per share in 2016, and debt is once again in the spotlight after the market decided the turnaround plan might not be going as well as previously thought. Investors had hoped the transfer of a 50.1% interest in the CSeries business to **Airbus** in July of 2018 would lead to a surge in orders, but that has not occurred.

In addition, Bombardier reported Q3 2018 results that indicated the business is still burning through significant cash. The announcement of 5,000 job cuts didn't help make investors feel better. Bombardier also said it was selling two more business units.

Regarding debt, Bombardier will have to start refinancing its bonds in the next couple of years. In early 2020, Bombardier has US$850 million coming due. That is followed by US$2.3 billion in 2021, US$1.7 billion in 2022, US$1.25 billion in 2023, and US$2.5 billion in 2024-25.

Opportunity

In the latest guidance note released December 6, Bombardier anticipates revenue to be 10% higher in 2019 at more than US$18 billion. Normalized free cash flow is targeted at US$250 million next year and the company is reaffirming its 2020 financial targets of revenue above US$20 billion and free cash flow generation of at least US$750 million, and possibly reaching US$1 billion.

Bombardier is bidding on some large rail orders, including a deal of nearly 1000 light rail transit vehicles for New Jersey. In addition, Airbus is hoping to secure some large international contracts for the A220.

Bombardier's new Global 7500 business aircraft is already sold out through 2021, there is US$34 billion in rail orders still on the books, and Bombardier generates decent aftermarket service revenue on the jets and rail cars it has placed in service over the years.

Should you buy?

Bombardier says it is a much stronger company three years into its turnaround program, and deserves credit for keeping its chin up during such challenging times. Investors, however, must decide if they are comfortable with the guidance.

If you believe that Bombardier will hit its goals and can refinance all the debt at reasonable rates, then the stock just might be an interesting contrarian pick today.

That said, the track record in recent years hasn't been great, and the drop in the stock from $5.40 per share in July to the current price of $2.20 is a reminder of how punishing the market can be when things don't go as planned.

At this point, I would probably search for other opportunities heading into 2019.

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