Can Bombardier, Inc. (TSX:BBD.B) Pull Off a Miracle?

Description

There's little doubt that **Bombardier** (TSX:BBD.B) is one of Canada's most well-recognized industrial names. The Montreal-based multinational aerospace and transportation company is responsible for a wide range of transport solutions from local trains in Mumbai to business jets landing in London.

It's a massive business with a global presence and a reputation for engineering excellence that spans three-quarters of a century. It's also a low-margin, debt-saddled business operating in an intensely competitive environment.

Over the past few years, the company's troubles with debt, sales, and cash flow have bubbled to the brim. This struggle is reflected in the company's stock price which is down 27% year to date and 54% over the past five years.

Investors seem spooked by the company's massive debt load, last reported at US$9.5 billion, and persistent cash flow issues. Bombardier only has $2.3 billion in cash on its books and managed to report negative operating cash flow of US$141 million in its third quarter.

With a massive debt repayment due in 2020 and increasing concerns of a recession, the company needs a miraculous turnaround to survive over the next few years. As you'd expect, the company already has a plan.

Shedding the fat

Here's the company's solution: sell off the underperforming commercial aerospace business, cut thousands of jobs, sell the business jet training program, and refocus on the rail and corporate jet businesses to generate cash to pay down debt.

Management says they expect cash flow to hit break even by 2019 (plus or minus $250 million) and turn positive by 2020. According to the company's investor presentations, this year the deleveraging will start in earnest.

But can the deleveraging be completed smoothly? Bombardier certainly seems to have a healthy backlog of orders for the rail business, with the order book reported at $34 billion.

However, the details about this backlog are murky at best. Analysts have some doubts over the sunk costs in 2018 and the company's ability to recoup it over the next two years while major chunks of its debt mature in 2020.

From what the company's financial reports suggest, management expects normalized cash flow to be between $250 and $500 million after the restructuring is over.

Assuming half a billion in annual cash flow, over $1.1 billion in proceeds from selling the training and Q400 program and $2.3 billion in cash on hand, Bombardier can bring debt down to comfortable levels in just a few years.

However, all those assumptions have to pan out perfectly over the next two years for debt to shrink to $5 billion, which is still too high. That's nearly 6.6 times operating income over the trailing 12 months.

Also, nothing ever pans out perfectly in the commercial transport and industrial engineering sector. Foreign governments block deals, payments are delayed, litigations crop up out of nowhere, and projects go over budget all the time. Unexpected bad news is nothing new for Bombardier investors.

In my opinion, even the best-case scenario for Bombardier isn't good enough to justify diving into this stock. There are other, easier ways to make money.

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