Does This 1 Undersold Stock Represent an Intriguing Value Opportunity?

Description

A stock that seems perennially to be on the oversold stock lists, **Bombardier** (TSX:BBD.B) is still a TSX index ticker to be proud of — if only for its ability to generate speculation. Having peaked last summer, its share price has since been gradually declining (with a few false recoveries) and is still trading at a deep discount against the future cash flow value.

A low-flying stock on the ascent?

Bombardier has a one-year past earnings growth of 95.9%, while the North American aviation industry enjoyed considerably lower growth of 16.9%. The stock has 47.7% expected annual growth in earnings and a share price discounted by more than 50% of its future cash flow value. In other words, what you'd be buying this stock for is mid- to long-term capital gains; if you already hold stock in Bombardier , you may want to sit tight and wait for that share price to go up somewhat.

It's rare to see a stock on its way down at the moment, with the TSX index broadly rallying after the market's brief but disastrous holiday nosedive. And yet here we are, with Bombardier having shed 1.40% in the last five days, while the majority of other well-appointed stocks enjoy a range of gains. In fact, it's hard to see why this growth stock hasn't enjoyed something of a boost in recent weeks, considering that investor confidence is recovering somewhat.

A brief word on quality and value, though: while there is a bright outlook for Bombardier in terms of growth in earnings, a non-existent EPS in the data is a red flag; meanwhile, with more liabilities than assets dragging down the balance sheet, you can forget about looking up this stock's past-year ROE. Negative or otherwise unreadable multiples leave the valuation to a +50% discount against the value per future cash flow, while a beta of 1.55 indicates a potential bumpy ride for buyers and holders.

Big aviators of Canada vs. America: which stock flies higher?

Compare the above stats with those of NYSE heavy-hitter **Boeing** (NYSE:BA). How often do Canadian investors check the stats for American aviation stocks like Boeing? If they did so today, they would see a stock in all-round good health and a strong competitor for our own homegrown aerial tickers. It had a good year, too, with a 49.1% rise in earnings.

For intrinsic valuation, look to a share price that is currently discounted by 23% compared to its future cash flow value. Negative assets lead to a wayward P/B ratio, though a P/E of 20.3 times and a PEG that's still just below twice growth show that Boeing could definitely be worse value than it is today. A dividend yield of 2.35% flies just high enough to avoid the ground, while a 11% expected annual growth in earnings shows that Boeing is still gaining altitude.

The bottom line

Should you get in now to enjoy the upside that will come on the back of Bombardier's high growth? Considering that Bombardier's five-year average past earnings growth shrank 5.5%, a turnaround in its fortunes could see the stock soar on renewed investor confidence, meaning that today's undervaluation could indeed offer one of the most tempting value opportunities on the TSX index.

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