



Is it Finally Time to Buy Bombardier, Inc (TSX:BBD.B) Stock?

Description

Bombardier ([TSX:BBD.B](#)) is back in the red. After years of struggling to generate positive earnings, the beleaguered plane and train maker generated a \$55 million profit in Q4. While revenue for the quarter was down to \$4.3 million from \$4.65 million in the same period last year, the return to positive earnings was well received by investors, sending the stock soaring 23%.

Since Friday, Bombardier shares have pulled back somewhat but are still up from where they were on the 14th.

For investors, there are some signs that Bombardier could be a buy. But are Thursday's mildly positive earnings really enough to justify buying a stock whose price peaked in the year 2000 and has been falling precipitously since then? First, let's take a look at the positive.

A return to profitability

The biggest reason for considering buying Bombardier stock is the fact that the company is starting to get its financial house in order. After years of falling revenue and negative earnings, the company is finally getting into the black. Not only is the most recent quarter an improvement over the same quarter a year before, but the most recent fiscal year was an improvement over the three preceding years: fiscal 2018 saw a \$318 million net income compared to losses greater than \$500 million the year before.

Reasons for the earnings jump

Bombardier's Q4 earnings growth was not driven by sales growth; as mentioned, those actually slid by about 6.5%. Instead, it seems to have been mostly due to reduced expenses, as several business segments that reported losses last year reported positive earnings this year. This would square with Bombardier's cost-cutting strategy; last year, the company [cut 5,000 jobs](#) and spun off two business units to improve operating efficiency. Ethical considerations aside, it does appear to have improved the company's bottom line.

Historical returns

The main case against investing in Bombardier is the company's historical return: since 2000, the stock is down 90%, and despite some up periods along the way, the trend has mainly been negative in the short term as well. Although past performance doesn't always indicate future performance, 19 years of shoddy returns is a bad sign. It's not hard to see why Bombardier has been struggling over the past few decades: the company ran up a tonne of debt on the [C-Series project](#) and has been struggling to eke out positive earnings since then. Investors might want to wait to see a few more quarters of positive earnings before jumping into BBD stock.

Bottom line

Bombardier is a company with a long and distinguished history that has fallen on hard times in recent years. Although the company improved its balance sheet by spinning off the C-Series project to Airbus, the company still has ongoing liabilities from that project — notably the duty to pay for cost overruns should they occur. The positive earnings in Q4 are a good sign. But personally, I'd want to see more than just one solid quarter before buying this stock.

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