



## Why Bombardier, Inc. (TSX:BBD.B) Stock Just Surged 40%

### Description

In the past week the share price of **Bombardier** ([TSX:BBD.B](#)) went from \$2 to above \$2.80.

Investors who had the courage to buy at the lows are now sitting on some nice gains and are trying to decide if they should take profits, or hold on for more potential upside. Those that missed the surge are wondering whether this is the right time to add the stock to their [portfolios](#).

Let's take a look at the current situation to see why the stock rallied so strongly and if additional gains could be on the way.

### Earnings results

The company's Q4 numbers and outlook for 2019 prompted the rally, as investors let out a small sigh of relief that no surprises came out in the report. The stock had taken a significant hit after the Q3 results showed Bombardier was still struggling with cash burn.

In the fourth quarter, the company said it generated free cash flow of \$1 billion. On the surface this looks good, but it includes net proceeds of \$750 million from the sale of an asset, as well as the monetization of royalties associated with another previously announced transaction.

For the full year, Bombardier generated a 3% increase in revenue to \$16.236 billion across its business lines. Reported net income for the year was \$318 million. Year-end cash and cash equivalents increased 4% to \$3.2 billion supported by the proceeds from the dispositions.

### Outlook

The company remains positive on its financial projections over the next two years. In 2020, Bombardier is targeting free cash flow of up to \$1 billion. That sounds positive, but investors shouldn't bet on renewed [dividend](#) payments anytime soon. Bombardier has to execute flawlessly in the coming 24 months to meet its cash flow objectives as it has US\$9.5 billion in debt that starts to come due next

year.

## Upside?

Bombardier says it is through the worst of its manufacturing challenges in the rail division. Delivery delays and recalls to fix welding problems have resulted in a very public battle with the Toronto Transit Commission on a major streetcar order. The problems might have contributed to the loss on major Canadian bids last year, including the Via Rail order and Montreal's light rail transit extension contract. Those deals went to European competitors **Siemens** and **Alstom**.

Recently, however, Bombardier won a contract to supply transit vehicles to New Jersey, so investors will have to see if more U.S.-based wins are on the way in 2019.

In the aerospace group, the company still has a significant stake in the former CSeries jet program, now called A220 under its new owner, **Airbus**. Reports of any material orders from international carriers for the new jets could provide a boost to Bombardier's stock.

The Global 7500 business jet is now certified and in service, and the division is expected to play a large role in helping Bombardier meet its 2020 objectives while it continues to sort out the issues in the other divisions.

## Risks

Execution is key in 2019 as Bombardier will have to start refinancing its significant debt position. Management is doing a good job of promoting a positive outlook, but the track record has not been great. Any disappointments in the next couple of quarters could send the stock back toward the 2018 low.

## Should you buy?

It's possible that a large part of the surge in recent days is the result of short covering, so investors should be careful chasing the bounce. That said, additional good news could certainly send the stock much higher, as Bombardier traded at \$5.40 per share last summer before sentiment soured on the stock.

Some pundits say the stock remains oversold, which might well be the case. However, if you are inclined to take a contrarian position, I would keep it small at this point, or even wait to see how the first half of 2019 goes before committing your cash.

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