Bombardier (TSX:BBD.B): Back in Black, But Still a Risk?

Description

One of the most often-mentioned and controversial investments on the market today is **Bombardier** (TSX:BBD.B). The renowned and troubled maker of planes and trains has been in and out of the news over the past few years, as a series of high-profile contracts and new products have consistently run late on delivery and well over budget.

Last month, Bombardier announced results for the most recent quarter that came in better than expected. This has led some investors to contemplate the stock, which is up 40% year to date.

Let's take a look at those recent results and determine whether Bombardier is a viable investment.

Q4 results: a successful turnaround or a one-off?

In the fourth quarter, Bombardier reported revenue of US$4.3 billion, down from the US$4.61 billion reported in the same quarter last year. From earnings of US$55 million, or US$0.02 per share, which was a noted improvement over the US$188 million loss, or $0.09 per share loss, reported in the same quarter last year.

Asset sales and royalties stemming from a previous transaction helped Bombardier post $1 billion in free cash during the quarter.

Looking forward to 2019 and beyond, Bombardier remains positive to continuing to churn out cash, targeting US$1 billion in free cash flow generation by 2020. Much of that ability stems from Bombardier being able to execute its existing contracts, many of which are already behind schedule, and to continuing to grow its order book.

Bombardier's outlook is strong, but can it deliver?

From the aerospace segment, Bombardier's portfolio remains stronger than it has been in years, despite offloading both the highly popular CSeries and Q400 jets from its portfolio. Instead, Bombardier has placed an added emphasis on its refreshed line of business jets, such as the highly anticipated Global 7500, which made history this month after completing the longest-range business jet flight in history, racking in 13,698 kilometres in a single non-stop flight.

Strong demand for the new jet has led to a slew of new orders, helping drive Bombardier's book backlog to over $14 billion, with the next available delivery slot for the new flagship 7500 jet now as far back as May 2022.

In addition to the 7500, Bombardier also unveiled updated versions of the Global 5500 and Global 6500 business jets, both of which are set to enter service later this year.

Turning to the rail transportation segment, Bombardier's lagging delivery schedule on a variety of projects has led to a souring of some relations and ultimately the company losing out or being excluded entirely on a variety of lucrative contracts, such as the contract with VIA Rail last year.

New York Transit president Andy Byford, formerly the CEO of the TTC, halted Bombardier from making new deliveries to New York's massive system until existing issues are addressed. Closer to home, the TTC's multi-billion-dollar contract with Bombardier to replace the aging fleet of iconic Toronto streetcars ran into similar delays, with Bombardier missing delivery windows, which resulted in Toronto tax payers forking over money to repair the older streetcars and keep them running.

Last month, Bombardier blew past another delivery due date in the contract with Metrolinx — the agency currently constructing the new transit line known as the Crosstown that traverses east-west through Toronto. The delivery schedule has already been revised several times in the past few years, and the contract has also been revised downward from an initial ask of 182 vehicles due to delays. The Crosstown line is set to begin operation within the next two years.

Should you buy?

Bombardier deserves some credit for beginning to get its house in order. The fact that the company is streamlining its product portfolio and growing its order book are encouraging signs, but overall Bombardier is still an overall risky investment, particularly as transit agencies around the world realize that there are other, more reliable vendors to choose from.

At this time, investors would be better served by opting for any number of other profitable investments on the market that can offer growth and in some cases, income-earning potential.

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