Can Bombardier (TSX:BBD.B) Get Back to $5?

Description

Bombardier (TSX:BBD.B) is a tough stock to figure out.

For the better part of two years, I was one of the biggest naysayers at the Fool when it came to the company's business model. I didn't think CEO Alain Bellemare's five-year plan wouldn't add up to much.

In August 2017, it was trading slightly higher than where it does today, after delivering its first quarterly profit in two years. I argued that the easy money had already been made and it would need a lot of good news to get to $5.

Add to this a significant amount of debt, and I didn't think Bombardier stock was worth hanging on to.

Well, we know what happened next.

The Airbus effect

Airbus came along in October 2017 and took over the CSeries, acquiring majority control of the CSeries Aircraft Limited Partnership, ensuring the future viability of the Bombardier commercial aircraft. Nine months later, Airbus renamed the CS100 as the A220-100, while the CS300 was renamed the A220-300.

In the nine months between the announcement of Airbus taking over the CSeries to the renaming of the aircraft, BBD.B stock gained 145%, jumping to a 52-week high of $5.58 — the highest it had been since 2011.

I was sold.

With Airbus in charge of arguably one of the best narrow-body planes in recent memory, Bombardier could worry about growing positive free cash flow. At least, that was the theory.

$10 here we come

While the CSeries was a beautiful plane, to get it into the hands of buyers around the world would have cost Bombardier considerable cash flow. Therefore, it's easy to understand why so many in the media felt the tide had turned for Bellemare and the rest of his executive team.

"Bombardier's extended troubles getting the CSeries planes through development and into production are well known to investors, and signing over a 50.1% stake in the program to Airbus was the best option the company had to protect more than 2,000 Quebec-based jobs," Fool contributor Andrew Walker stated in July 2018 after the Airbus announcement.

I wondered almost a year ago to the day if Bombardier stock could hit $10 in the next 12-18 months. Inevitably, its stock lost all its momentum over the next six months, finishing 2018 at a penny over $2.

My rationale for suggesting it could hit $10 was that Bellemare was delivering higher margins, revenues, and even free cash flow. The business was so bright it was thought Bombardier would use some of the US$4 billion in cash expected to be on its balance sheet by the end of 2018 to buy back the Caisse de dépôt et placement du Québec's 27.5% interest in its rail division

Although I cautioned that Bombardier needed to trim its debt and that I personally wouldn't buy its stock, I argued on Bombardier's behalf just the same.

A smaller goal

With $10 looking well out of reach at this point, I'm now back wondering if Bombardier is a $2 stock or a $5 stock.

Fool contributor Ambrose O'Callaghan recently mentioned something about Bombardier that caught my attention

The company has a current backlog of $34 billion, suggesting that its Global 7500 business jet along with the rail business is doing just fine. Furthermore, the company, in a rush to get these projects completed, ramped up the cash drain in the first quarter, resulting in free cash flow usage of US$1 billion.

Usually, when a company's capital expenditures are higher than its operating cash flow, it's a bad thing. However, you have to spend money to make money in aircraft manufacturing, so it's a sign Bombardier's core business remains strong.

If you're an aggressive investor, Bombardier stock is a good buy at this point in the company's business cycle, despite the fact its long-term debt is closing in on US$10 billion.

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