This Canadian Defence Stock Just Got a Big Boost From Japan

Description

Without giving too much away about the nature of the potential deal, Japan's **Mitsubishi Heavy Industries** just announced that talks are underway to purchase the CRJ regional jet business from Canadian aerospace and defence giant, **Bombardier** (TSX:BBD.B). While the decision has yet to be finalized, Bombardier has seen its share price climb following the news.

Confirming the discussion with Mitsubishi, Bombardier cautioned in a statement that, "Before any agreement can be reached, further review and analysis by Bombardier management, and approval by Bombardier's board of directors are required," adding that the Japanese company must also adhere to its own due diligence review and approval process.

Bombardier is no stranger to such deals, having last year sold a majority stake in its CSeries commercial aircraft program to Airbus SE. From an investor's point of view, such deals can add value to Bombardier's stock: among other boons, the Mitsubishi deal, for instance, would streamline Bombardier's assets, improve its bottom line, and, of course, see an improvement to the share price.

Early talks have already boosted share prices

Up 9.69% at the time of writing, Bombardier has seen its share price rise by an average of 4.39% over the last five days. However, the stock is still 40% off its fair value, meaning that the potential for an investment to mature further is significant. Indeed, with a low P/E of 8.8 times earnings, new investors may feel as though they are getting in at the ground level.

For a similar company, albeit one that is not trading on a Canadian stock exchange, aerospace and defence investors may want to look at the passive income potential of holding **Boeing** (NYSE:BA) in a portfolio. While decidedly worse value than Bombardier, the rest of the U.S. ticker's stats check out: a dividend payer with a strong track record of payments, Boeing balances a high level of debt with a significant ROE.

Passive income vs. capital gains? How about both?

While holding both stocks may lead to overexposure in this sector, the different styles and outlooks of these two stocks may convince an investor bullish on defence to stack them alongside each other. Since Boeing offers passive income, an aerospace investor may want to simultaneously bet on Bombardier in the shorter term for a capital gains play, though at risk of reducing diversification in a portfolio.

Indeed, should the deal with Mitsubishi get the green light, Bombardier would likely see another boost like the one it enjoyed this week. However, while an estimated 48.9% earnings growth over the next three years is intriguing, a longer-term play would require stockholders to be optimistic about Bombardier's performance; the past year has been a tough one for the defence ticker, after all, with year-on-year revenue growth below 5%.

The bottom line

Bombardier could see its share price rise further this year, as new deals and the removal of metal tariffs improve its outlook. A combination of good value and decent growth potential still make this frontline Canadian aerospace and defence stock and intriguing play. Investors will have to look past recent price volatility and a worrisome balance sheet before they agree with this stock's current rating as a moderate buy, however.

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