



Bombardier (TSX:BBD.B): Fly High With This Canadian Aerospace Juggernaut

Description

Headquartered in Montreal, Canada, **Bombardier** ([TSX:BBD.B](#)) is the [world's leading manufacturer](#) of both planes and trains. At the end of FY 2018, Bombardier operated under four reportable segments: Business Aircraft, Commercial Aircraft, Aerostructures, and Transportation, posting a combined revenue of \$16.2 billion, which were subsequently merged into Bombardier Aviation and Bombardier Transportation.

With a direct presence in 28 countries (75 production and engineering facilities) and a worldwide network of service centers with 68,000 employees (at the end of FY 2018), Bombardier aims to shape the future of global mobility.

Risks of investing in Bombardier

Bombardier primarily trades under two classes of common shares (BBD.A and BBD.B); the class A shares have multiple voting rights, while class B shares are subordinate voting shares. As the largest Class A shareholder, the Bombardier-Beaudoin family has a vested interest in maintaining the status quo and oppose any proposals that may necessitate ownership dilution.

In addition to ownership risks, due to the nature of its business, Bombardier is exposed to several systemic and non-systemic risks, including economic, operational, financing, market, and business environment risks. This is evident from the high beta (greater than one), which makes Bombardier stock very volatile with frequent price fluctuations.

On a fundamental level, due to a heavy investing cycle comprising of funding the Learjet, CSeries, and Global 7500, the company is saddled with long-term debt in the tune of ~\$9 billion for which the interest expense alone is about \$300 million yearly. Coupled with problems in the transportation division relating to quality issues and missed deliveries, the company has found itself with a cash flow problem.

Bombardier: Strengths and opportunities

Since 2015, the company is undergoing a turnaround plan under the stewardship of president and CEO Alain Bellemere. The company is currently re-focusing its attention towards monetizing its existing assets and cashing in on its latest products: the much-vaunted Global 7500, 6500, and 5500 line of business jets and the A220 narrow-body passenger carrier.

Furthermore, product lines with limited growth opportunities, such as the Q400 and CRJ, are being sold to prioritize high-margin product lines in business aviation. The company is also divesting assets in non-core areas such as Training and Real Estate while undertaking re-structuring to realize additional savings.

These efforts have led to a stock price recovery from an all time low of \$0.80 in 2016.

In the transportation segment, as one of the very few integrated solution providers (other than **Siemens** and **Alstom**), Bombardier enjoys a healthy backlog of ~\$54 billion. The customer base in the transportation sector being mostly state-owned enterprises ensures limited risk as long as the company meets its contractual obligations.

Despite criticisms in the press, Bombardier excels in designing exceptional products. The planes and trains the company manufactures have won numerous awards and mentions from customers and leading industry bodies. In addition, the company has undertaken several CSR initiatives, such as community development, reducing carbon footprint, and compliance with high ethical standards, and it has been featured in the World Index for 2019 Global 100 Most Sustainable Corporations.

The bottom line

To an average investor, an investment into Bombardier most certainly comes at a high risk; the three ratings agencies, **Moody's**, **S&P**, and **Fitch** have ratings of B3, B- and B on Bombardier, respectively. However, at these current prices, the risks are well worth the reward.

Although the company cut its financial outlook for the year, if the company successfully executes its five-year turnaround plan and is able to deleverage sustainably while delivering products consistently, there is indeed a bright future ahead for this Canadian Aviation icon.

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