3 Reasons Why Bombardier (TSX:BBD.B) Is a Turnaround Story

Description

Bombardier (TSX:BBD.B) is a company in transition. Following its disappointing Q1 numbers and guidance, Bombardier is currently treading water and looking to divest non-core assets, while focusing on its two most lucrative divisions: Aviation and Transportation. Here are three reasons why I believe now is a good time to pick up this household name on the cheap.

Asset divestitures bring much-needed cash into the coffers

Bombardier recently announced that it will be selling its regional jet program to Mitsubishi Heavy Industries for cash consideration of US$550 million. Furthermore, the sale also means that Mitsubishi will assume $200 million worth of liabilities from the ailing segment, helping to ease Bombardier's cash strain and to pay down its debt burden.

The sale of the regional jet program comes on the heels of other divestitures the company is making in efforts to generate some much-needed coin. For example, in May, it was announced that Bombardier was in talks with Airbus to offload its struggling Belfast, Ireland plant, while in March, the company finalized the sale of its flight and technical training activities for net proceeds of $532 million.

Business aviation backlog remains healthy

The business aviation industry continues to see strong demands, with key measures of market confidence remaining upbeat, while pre-owned business jet inventories continue to decline. This is good news for makers like Bombardier, who saw its business aircraft order backlog tick up to $14.9 billion in Q1 compared to $14.3 billion in the previous year. Bombardier's marquee Global 7500 jet is also facing strong reception. Reviews from leading industry magazines have applauded the $73 million jet's performance and range, while noting the ease of its controls. No wonder the model is sold out until 2021.

Bottom is in for Transportation

By far, the segment that faced the brunt of the market's ire in Q1 was Bombardier Transportation.

To recap, revenues fell 11% year over year to $2.1 billion, while EBIT margins plummeted 420 basis points to 3.9%, and the backlog shrunk 2% to $33.8 million. Worse, Bombardier slashed its previous segment revenue guidance down to $8.75 billion from $9.5 billion, while completely suspending forecasts for 2020 and beyond. In other words, this was as bad as it's ever going to get.

And while anyone can be rightly scared off by the ugliness, bear in mind that Bombardier is expecting the drastic underperformance to end in the second half of 2019, as the company works through some residual legacy projects and resumes its growth trajectory. Furthermore, management has also guided on increased streamlining of supply chain issues and cost-absorption measures, leading to a rebound in EBIT margins.

For now, it seems that the worse might be behind us. Expect Bombardier to make further divestitures in the coming quarters and performance to improve for Transportation, with a new management team at the helm. Based on where the stock is trading, while it is certainly a risky proposition, it is one bet I'm willing to make.

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