Where Will Bombardier (TSX:BBD.B) Stock Be in 5 Years?

Description

Bombardier (TSX:BBD.B) is a stock that has seen better days. A high-flying plane and train company in the 1990s, it fell on hard times in the 2000s and hasn't managed to fully recover.

Once trading for as much as $25, the stock is now worth less than $2. The company's woes originated in expensive projects that left it over-leveraged and incapable of handling its debt, eventually forcing it to spin off large business units to stay afloat.

However, in recent years, the company's management has been embarking on a cost-cutting plan that has helped it return to (occasional) profitability. The company was profitable for the 2018 fiscal year, after having lost money in the three years prior.

The question investors need to ask themselves is whether that renewed profitability will last. Before answering that question, let's look at how Bombardier got to where it is.

Long-term woes

Bombardier's long-term woes date back to the early 2000s, when the company spun off its valuable recreational products division as part of a restructuring program. The sold-off division later went on to become extremely successful under new management, while the parent company continued to struggle.

In 2015, Bombardier had a major fiasco with its CSeries jet, which suffered a number of delays and cost overruns. By the end, the project, which was estimated at $2.1 billion, wound up costing over $3.5 billion, and Bombardier was left with a mountain of debt it couldn't manage.

Cost-cutting initiatives

In the wake of the CSeries fiasco, Bombardier sold a 50.1% interest in the project to Airbus, which helped ease the company's balance sheet. Under Airbus, the jet, which was renamed the A220, has been getting some interest from customers.

Recently, Bombardier has been embarking on further cost-cutting initiatives, including a wave of layoffs in November 2018 that resulted in 5,000 jobs being lost. The company has also been spinning off business units: for example, it recently sold a regional jet business to Mitsubishi for $550 million.

Recent results

Bombardier has attracted a lot of criticism for its cost cutting, since it has come at the expense of many jobs. For a while, these cost cuts seemed to be helping the company stay lean, as it became profitable once again last year.

However, the company's most recent quarterly report was not exactly encouraging: revenue grew by just 1%, while the company posted a $36 million net loss, down from a $70 million profit in the same quarter a year before. The company's cash flows from operating activities were negative to the tune of $289 million.

Based on all of the above, it looks like Bombardier investors are in for a rough ride. While I'm hesitant to give an exact prediction as to what the stock's price will be in the future, anything above $3 seems unlikely in the next few years. If the company keeps posting net losses and barely growing revenue, its stock could even go lower.

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