



Why Bombardier (TSX:BBD.B) Stock Has Bottomed Out

Description

Shares of **Bombardier** ([TSX:BBD.B](#)) are trading at \$1.72, which is [close to its 52-week low](#). The stock is trading 65% below its 52-week high of \$4.78. Bombardier has burnt significant wealth for investors and has lost close to 70% in market value since August 2018.

Bombardier is a Canada-based plane and train manufacturer. It has four primary business segments: Business Aircraft, Commercial Aircraft, Aerostructures & Engineering, and Transportation.

Revenue decline no longer a concern

Investors were concerned over Bombardier's revenue decline in the last few years. The company's sales fell from \$18.17 billion in 2015 to \$16.33 billion in 2016 and \$16.19 billion in 2017. Sales then rose to \$16.23 billion in 2018. Analysts expect company sales to grow by 2.9% to \$16.71 billion in 2019 and by 12.8% to \$18.85 billion in 2020.

This uptick in sales will also result in robust bottom-line expansion for Bombardier. Analysts expect its earnings per share to grow by 169% to \$0.09 in 2020. Its earnings are also expected to grow at an annual rate of 12% in the next five years. This is significantly higher than the annual earnings decline of 25.4% in the last five years for Bombardier.

Management optimistic about a turnaround

Bombardier's management is satisfied with the company transformation in the last few quarters. During the second-quarter earnings call, company CEO Alain Bellemare stated, "Over the next 12 to 18 months, we have more work to do to compete what we started. We are working through our challenging projects as well as the ramping up to make sure that we delivered on that backlog successfully. As a result, we are going through an intense phase where we need to make additional investments over the rest of the year, including adding engineering and manufacturing capacity."

Bombardier is fast gaining momentum in the aerospace segment. It is focused on creating value with

the new Bombardier Aviation by leveraging investments. The company is creating shareholder value, as it has successfully monetized underperforming and non-core assets.

Its partnership with Airbus has resulted in strong momentum for its A220 program. Further, robust cost-reduction efforts undertaken by the firm is contributing to margin expansion. Bombardier's order book has experienced significant growth with 300 new orders, including a 60-aircraft order from Air France.

Strong performance across segments

Bombardier's growth programs are on track, and the firm is likely to benefit from investments to expand its service network. In the second quarter, Bombardier delivered 35 aircraft, including two Global 7500 ones. It is forecasting delivery of 15-20 Global 7500 aircraft in 2019. There is also renewed interest for Bombardier's new Global 5500 and 6500 aircraft, which will be certified by the end of 2019.

Driven by the growth in the order book and strong demand for aircraft, Bombardier experienced a 6% growth in its Business Aircraft segment, while sales rose by 24% in Aerostructure & Engineering. This revenue growth was offset by a 16% fall in the commercial aircraft business and a 3% fall in Transportation.

It looks like Bombardier is on track to achieving its financial targets in 2019 and looks like an attractive pick for investors. Analysts have a 12-month average target price of \$2.42 for Bombardier. This indicates that the stock is trading at a discount of 43% to its target price.

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