Should You Hold Bombardier (TSX:BBD.B)?

Description

Bombardier (TSX:BBD.B) could be the perfect investment for long-term growth.

I say *could* because Bombardier has struggled in recent years with meeting delivery schedules and bringing new products to market on time. Bombardier's stock price has also flirted with penny-stock status in recent years and currently sits in the sub-$2-per-share range.

What does this mean for investors who either hold the stock or are contemplating buying into Bombardier on the low?

The case for buying

If there's one thing that Bombardier does well, it is building the types of planes and trains that its global audience wants. That part is evident from the sheer number of Bombardier-built commuter trains in service around the world, and there's no shortage of new rail contracts being awarded to Bombardier's transportation division.

Critics of the company often point to Bombardier's well-covered delays to both the Toronto Transit and Metrolinx projects, but the more important fact for investors to focus on is the more than $1 billion in potential revenue associated with both projects.

Turning to Bombardier's aerospace sector, Bombardier's focus on getting the Global 7500 to market is finally bearing fruit. Revenue from the business aircraft sector came in at US$1.4 billion in the most recent quarter, reflecting a healthy 6% year-over-year increase. The 35 deliveries in the most recent quarter included two Global 7500 jets, which has a full order book through 2021.

In the most recent quarter, Bombardier reported consolidated revenues of US$4.3 billion, representing a healthy 9% year-over-year organic growth. Adjusted EBITDA for the quarter came in at US$312 million, which received a healthy boost through the sale of the QSeries sale.

The case for holding or even selling

Bombardier’s constant delays should be a little more than concerning to investors. In the past, Bombardier’s delays were shrugged off because customers knew that Bombardier would eventually deliver, and there was a reluctance to look elsewhere. That changed in the past year, as Bombardier was barred from bidding on a lucrative multi-billion-dollar contract in New York City.

On the aerospace front, Bombardier has sold off its Q400 program, literally gave away its CSeries program, and recently exited the commercial aviation business altogether through a US$550 million sale this summer.

Strategically, I get the need to consolidate the large portfolio down and focus on the popular (and successful) business jet niche, but whether this is a case of “tossing the baby out with the bathwater” remains to be seen. The commercial aviation segment provided a nice hedge against a slowdown in the more extravagant business jet segment.

Keep in mind that when the market begins to slow, as many predict it will in the coming year, some of the first things cut from budgets are discretionary travel. A $70 million private business jet sitting on a budget in a time of belt-tightening fits that definition perfectly.

To put that into perspective, Bombardier’s Global business jet order book is full through 2021, and the production of 15-20 units promised for 2019 will double to 30-40 units in 2020. Much of Bombardier’s impressive backlog stems on the continued success of that segment and a market slowdown could alter the company’s balance sheet significantly.

Final thoughts

There’s no denying the fact that Bombardier could be an intriguing investment option. The Global series jets, along with a slew of new rail contracts and a healthy backlog, provide billions in potential revenue for the company. Unfortunately, that potential revenue stream comes with significant risk.

To put it another way, Bombardier is still an incredibly risky investment that may not be for everyone. Investors looking for long-term growth prospects still within the confines of the aerospace industry would be best served by looking elsewhere.

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