



## Can Bombardier (TSX:BBD.B) Stock Get Back to \$3?

### Description

**Bombardier** ([TSX:BBD.B](#)) has made investors [millions](#). In 1995, shares were priced at just \$3. By 2000, they had surpassed \$25. But following the collapse of the tech bubble, the stock fell back to just \$3 apiece. It's been a roller coaster over the years since, but in the end, shares are now below \$2. If the stock could reach \$3 again, there would be 70% upside.

While the stock has struggled, there could be light on the horizon. In fact, it wouldn't take much at all to propel the shares back to \$3. If you're willing to stomach the volatility, this could be your best bet to make quick cash in 2020.

### Everyone knows it's bad

Bombardier is in terrible shape. In recent years, the company has been bailed out by the Quebec government, engaged in a lawsuit with Mitsubishi, faced severe project execution issues in New York and Switzerland, slashed its long-term revenue guidance by \$1 billion, sold a failing business unit to **Airbus SE** only to see it stage a turnaround, faced a regulatory probe scrutinizing executive stock sales, cut hundreds of jobs around the world, and lost a \$1 billion contract to competitor **Siemens AG**.

That's a huge list of troubles, but the difficulties remain. On October 31, Bombardier reported a 41% decline in quarterly core profits. Quarterly free cash flow usage rose more than 80% to \$682 million. In a scramble for cash, it sold its wing factory in Northern Ireland alongside two related facilities to **Spirit AeroSystems Holdings** for \$500 million.

But here's the thing: everyone knows it's bad. The news has been terrible for years, and the company's financial issues aren't a surprise to anyone that's covered the company. The question here isn't whether the company is facing issues, but how much the underlying stock is actually worth. Just as the best companies can become overvalued, even the most troubled companies are usually worth something. Only by comparing its intrinsic value to the prevailing stock price will we know whether Bombardier stock is a buy.

## What is this stock worth?

Despite its reduced size, Bombardier remains one of the largest manufacturers of transportation infrastructure and passenger jets in the world. Given its current cash problems, management is focused on selling costly assets like its commercial plane program, opting to save its more profitable business jet and rail units. Over the next 12 months, expect the company to become considerably more streamlined.

Notably, the company's biggest troubles began when it was at its largest. In 2014, Bombardier generated roughly \$20 billion in revenue — a decade-long high. The very next year, it booked a \$1.6 billion loss. The year after, it generated an even greater \$7 billion loss, more than the entire company is worth today. By getting smaller again, management finally might be able to turn things around. After all, many of Bombardier's segments are still profitable, but their promise has been overshadowed by a litany of ancillary endeavours.

Taking a look at 2007 results, when the company generated just \$14.8 billion in revenue, might give us some indication into what a streamlined Bombardier might be able to achieve. In 2007, net income doubled year over year to \$243 million. Free cash flow hit \$610 million — an increase of \$80 million from the year before. The order backlog hit a record of \$41 billion — a huge increase from \$32 billion in 2006.

It's a big if, but *if* Bombardier can navigate itself into the same position, the stock will surely be much higher. In 2007, shares were worth more than triple the price, well above the \$3 mark. Even a semblance of a turnaround could push the stock price above \$3. It'll be a long and difficult path, but there's a clear way to inject some life into embattled shares. That path is dominated by simplifying the business and only focusing on profitable segments, not the next trending thing. If management can do that, the share price will be rewarded.

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