



## Why Is Bombardier Stock (TSX:BBD.B) Stock Surging Ahead?

### Description

Shares of **Bombardier** ([TSX:BBD.B](#)) are up close to 25% in the last week. The stock gained over 7% on November 4, 2019. So, what is driving this upward rally?

Last week, Bombardier announced its third-quarter results and reported sales of \$3.7 billion, up 2.8% compared to sales of \$3.6 billion in the prior-year period. The company's adjusted earnings fell to -\$0.04 in the third quarter of 2019 from \$0.04 in the prior-year period.

In fiscal 2019, it forecast sales between \$16.5 billion and \$17 billion with adjusted EBITDA between \$1.2 billion and \$1.3 billion. Analysts expect Bombardier to post sales of \$16.66 billion in 2019.

### What drove sales for Bombardier in Q3?

We know that Bombardier is a Canada-based manufacturer of planes and trains. It has four business segments: Business Aircraft, Commercial Aircraft, Transportation, and Aerostructures & Engineering Services.

Sales in Bombardier's transportation segment rose 5% year over year to \$2.2 billion in the third quarter. Adjusted EBITDA in this segment accounted for 6.6% of sales. The aviation segment saw sales grow by 10% to \$1.6 billion with an EBITDA margin of 9.9% of \$154 million in the business.

### Bombardier sells aerostructures business for \$500 million

The big news for Bombardier investors was the company's sales of its aerostructure business. Bombardier announced a definitive agreement to sell the business to **Spirit AeroSystems Holding** for \$500 million in cash.

The company's press release states, "With this transaction, Spirit will acquire Bombardier's aerostructures activities and aftermarket services operations in Belfast, U.K.; Casablanca, Morocco; and its aerostructures maintenance, repair and overhaul (MRO) facility in Dallas, U.S. for a cash

consideration of \$500 million and the assumption of liabilities with a total carrying value in excess of \$700(2) million, including government refundable advances and pension obligations.”

In 2018, this segment accounted for 3.5% of total sales. However, it rose 44.5% year over year to \$746.58 million in 2018. Bombardier estimated sales in this business to be about \$1 billion in 2019 with an EBITDA margin of 12%.

The transaction is valued at an enterprise value (EV) to EBITDA of 10. Comparatively, the forward EV/EBITDA multiple for Bombardier stands at 7.3. This sale allows Bombardier to focus on core businesses and growth pillars such as trains and business aircraft.

The sale will also help in reducing debt levels and strengthening the liquidity position of the firm. At the end of the third quarter, Bombardier's debt stood at \$10.4 billion. The company has a cash balance of \$2.46 billion, but its operating cash flow was negative at \$464 million.

## Is Bombardier out of the woods?

Bombardier investors have lost significant wealth over the years. Despite the recent upward spiral, the stock is down 52% in the last five years and has wiped off 64% of investments since July 2018.

The company has been plagued by several issues. It had to be bailed out by the Quebec government, was engaged in a lawsuit with Mitsubishi, [and much more](#). Will Bombardier continue to sell additional business units to further streamline operations and focus on growth areas? Will this strategy propel the stock to new highs?

Analysts remain optimistic and have a 12-month price target of \$2.24 for the stock. This is 15.5% above its current stock price of \$1.94.

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