Time to Buy Bombardier Stock?

Description

There has been a great deal of volatility associated with **Bombardier** (TSX:BBD.B) for quite some time. Indeed, I think a lot of this volatility is warranted.

It wasn't that long ago that many pundits suggested the company could go bankrupt. This is a deep-value turnaround play for bulls that are hopeful on the company's niche offering. Bombardier's executives remain hopeful in this regard and believe that a turnaround is underway.

As with other turnaround stocks, Bombardier has seen its share price almost double on a year-to-date basis. That's not bad.

So, let's consider whether this is really a stock to avoid right now or if there's some real upside here.

Strategic moves to shore up balance sheet

Bombardier has been making some rather drastic moves to regain control over its cost structure of late.

In February 2021, Bombardier announced that 1,600 employees would be laid off in an attempt to stabilize its financial position. Approximately 700 of these job cuts will be taking place in Quebec, with the rest being spread across Canada and the United States. Indeed, these moves have become something Bombardier investors have become accustomed to over the years, as the company continues to right-size its organization.

However, the company notes these moves should prove positive over the long term. As per the company's estimates, the layoffs will generate roughly $400 million in cost savings over the next two years. These cost savings would be further enhanced by the company's halting of its Learjet manufacturing operations in Q4 of this year. These decisions would allow the company to nail down its focus on the production of Global and Challenger — its two primary business jets.

Management remains optimistic of a recovery

Last year, this Montreal-based company reported a loss of $568 million. Nevertheless, after stopping Learjet production and laying off employees, Bombardier now projects forward positive free cash flow in the next four years. The turnaround plan is based on anticipated revenue of $500 million with an EBITDA margin of 20% by 2025.

Now, that's an aggressive target. However, the company does have a few catalysts it's relying on in these assumptions.

First, Bombardier, expects to see sales of its Global 7500 jet to significantly increase over the next five years. These planes appear to be a pivotal growth catalyst the company is relying on in its projections. Right now, Bombardier's margin on these planes is negative. However, the company expects the economics of production to improve over time.

Bottom line

Bombardier has made these turnaround projections before. Accordingly, many investors may take a wait-and-see approach with this stock before passing judgement.

The stock has been a relatively dismal performer in recent years, leading to its share price below $1 today. For those who think there's a plan in place to turn things around, it's an intriguing high-risk, high-reward play.

However, I remain on the sidelines with this stock, as I see too much hair on this turnaround play right now.

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