Bombardier (TSX:BBD.B): A Turnaround Stock That Surged 240%

Description

Bombardier (TSX:BBD.B) stock has emerged from the pandemic like a phoenix, rising 240% year to date. It burned down to ashes during the pandemic and emerged strong with restructuring and downsizing. Its latest earnings showed a profit for the first time in many years, reviving hopes that the airplane maker will finally emerge from the 2013 product failure.

Bombardier's past failures

Bombardier, once a $36 billion valuation company in 2000, reduced to $1.78 billion last year. This 20-year decline has a long history. But one factor that pushed Bombardier into multi-year losses was its CSeries commercial aircraft. The aircraft suffered from various issues, including engine failure, development delays, and cost overruns.

A significant amount of time and effort goes into making a product. Hence, any product failure is a major risk for a company. Bombardier's products are expensive and not volume-based. A product failure in 2013 cost it all its profits and pushed the company into debt.

Over the years, the company sold almost all of its businesses, with the last one being its train business. Now, Bombardier is a pure-play business jet maker, the company's only profit-making business.

Last quarter, Bombardier used the proceeds from the sale of its businesses to offload debt, giving it breathing space. This is reflected in its stock price and its latest earnings.

Bombardier address the elephant in the room: rising debt

Bombardier reduced its long-term debt obligation by $2.7 billion. The next debt repayment is in 2022 of $514 million and another $534 million in 2023. That it can repay with its $2.1 billion liquidity. As of June 2021, the company's net debt stood at $5.7 billion.

Bombardier has sufficient liquidity to survive the next three years. Deleveraging the balance sheet is its priority, and it will use free cash flow to invest in operations and repay debt. It aims to reduce its net debt to EBITDA multiple to around three times by 2025 from over eight times at present.

Where will the positive EBITDA come from? The business jet demand is recovering. Last year, Bombardier’s aviation revenue fell 14% as the pandemic-induced lockdown impacted demand. It is seeing a recovery this year as international borders reopen. Hence, it has raised its 2021 aircraft delivery guidance from 100-120 aircraft to over 120 aircraft, most of which are for large business jets. It has also increased its revenue guidance to $5.8 billion from $5.6 billion.

If Bombardier can continue to operate profitably and efficiently reduce debt, it could see the light of the day.

Hopes of a turnaround

Hope is what drives the stock price. The hope of a turnaround drove Bombardier stock 240% in seven months and 520% since November 2020. The stock is trading at $1.73 at writing, which is 0.76 times its earnings per share. This increased Bombardier’s market cap to $4.3 billion from $1.78 billion last year. The stock has immense growth potential, but its growth will have to pass the test of investor confidence.

The stock has recovered to the pre-pandemic level. Now, you may ask whether it is a buy at this point. Bombardier is different from other stocks. It was doing poorly before the pandemic. Whatever recovery you see in the last 10 months reflects the recovery in business jet demand.

As the fundamentals improve, the stock price will surge, making it a buy even at the current price point. I expect the stock to surge past $3 (its 2019 level) in the next two years as it deleverages its balance sheet.

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