The Bull Case for Why Bombardier Stock Could Run Higher

Description

The stock market continues to make new all-time highs on what seems like a eerily frequent basis of late. Accordingly, it can be difficult for many investors to look at smaller-cap options. High-flying growth stocks continue to outperform, with the vast majority of economically sensitive companies sputtering of late. Investors in **Bombardier** (TSX:BBD.B) stock certainly know a thing or two about being patient.

Indeed, the aviation industry is one of the few sectors that have been hit hard due to the pandemic. With international travel coming to a standstill, airlines and aircraft manufacturers have struggled to survive.

However, Bombardier has done everything in its power to do so. Its aggressive cost-cutting measures and a focus on its core business jet segment have resulted in a boom in investor confidence in this stock. Indeed, Bombardier stock is now trading near its 52-week high at the time of writing. From its lows, Bombardier has increased more than 500%.

That's an impressive comeback. Here's why I think Bombardier stock may have more room to run from here.

Debt refinancing bullish for Bombardier stock

The financial picture for Bombardier remains unpleasant. Indeed, the aforementioned shock the pandemic provided to this company's ability to operate business as usual has resulted in cash flow declines that led many investors to believe bankruptcy could be around the corner.

However, Bombardier recently announced the refinancing of bonds due over the next two years. Approximately US$750 million of 6.5-year bonds were sold at 6%. These bonds would push out the company's bonds due over the next three years to further down the road, allowing Bombardier time to fully recover.

That's quite the premium to where bond yields are at today. However, investors need to remember that Bombardier stock isn't exactly rock solid right now. That said, should the company's financial condition improve, the potential for another debt refinancing down the road isn't out of the question.

Both major ratings agencies have upgraded their outlook for Bombardier. Currently, the company's debt rating is still below investment grade, but only slightly. An improvement to investment grade debt could be a huge catalyst for this debt-ladened company.

One of the reasons for these ratings agencies to upgrade their outlook was Bombardier's forward guidance for 2021. The company announced EBITDA expectations of US$575 million compared to the US$500 million number previously given out. This is above many analyst expectations. Additionally, this is on top of an already strong earnings report, which beat analyst expectations.

Bottom line

Bombardier is a company with a lot of hair on it. Indeed, from a fundamentals perspective, things are starting to look better for this business jet manufacturer. However, like many turnaround stocks, there's a lot of work to be done to get investors from where the company is today to where management sees Bombardier in a few years from now.

However, for those who believe management can do what it says it's going to do, there's a lot of potential upside with Bombardier stock. I'm of the belief that this is an economic recovery play that could benefit from an improved debt picture in the coming years. Indeed, if the stars align, Bombardier stock could turn out to the high-risk, high-reward play investors are looking for today.

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Date
2025/08/18
Date Created
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