Bombardier's Earnings Recovery Continues: Should You Buy or Sell?

Description

- **Bombardier's** (TSX:BBD.B) first-quarter adjusted EBITDA rose 36%, despite a 7% revenue dip
- Strong business jet demand has increased its order backlog, setting it for growth till 2024.
- However, Bombardier's fundamentals could be severely affected if the Russia-Ukraine war escalates.

Bombardier is in the middle of a massive turnaround after years of losses. Its stock surged 2.5% after the company showed a continued recovery in first-quarter earnings. The company is on track to improve profit and revenue by selling more business jets, expanding in the aftermarket, and reducing debt.

What happened in the first quarter?

Bombardier received $1.3 billion worth of new aircraft orders in the first quarter, increasing its order backlog by 11% to $13.5 billion. This order growth comes on the back of strong demand for new jets, as used jets are short in supply which has increased their prices. The company reported a 34% surge in aftermarket services, as business jet usage increased due to the removal of lockdown restrictions.

However, Bombardier's business jet revenue fell 17%, as it delivered 21 aircraft compared to 26 in the first quarter of 2021. This pulled its overall revenue down 7% to $1.25 billion. But the company is on track to deliver over 120 aircraft this year, with most deliveries scheduled for the fourth quarter. For a company like Bombardier, don't focus on quarterly revenues but annual revenue, and that is on track.

Bombardier's next priority is improving EBITDA, and it increased adjusted EBITDA by 36% year over year to $167 million. Even though it delivered fewer aircraft, adjusted EBITDA improved, as it improved margins on Global 7500 aircraft and increased contribution from the higher-margin aftermarket segment.

Bombardier on track to reduce debt

Bombardier also adhered to its third priority of reducing debt. It repaid $405 million of debt due in 2024 and 2025. This debt reduction converted its positive EBITDA to a net loss of $287 million. The loss is temporary, and it will be adjusted in annual profit.

By repaying some debt, Bombardier reduced its leverage ratio to 7.1. The leverage ratio is still high, and the jet maker aims to reduce it to three by 2025. Till then, it has $1.8 billion in adjusted liquidity, which is sufficient to fund its operations and repay the next debt maturity of $800 million in 2024.

Can Bombardier withstand the Russia-Ukraine war?

In the light of strong demand and new orders, Bombardier is considering increasing production by 15-20% next year. The order backlog could keep Bombardier busy till 2024. However, the Russia-Ukraine war could jeopardize this growth.

Bombardier makes business jets for governments, companies, and billionaires. While its customers are not significantly affected by inflation, the fear of recession even haunts the big guns.

The war has disrupted the global supply chain and inflated the prices of oil, gas, and metals. Rising oil and commodity prices are fueling inflation to a 30-year high. Central banks are increasing interest rates to curb inflation, thereby increasing borrowing costs and making the business environment unfavourable. Buying a business jet won't be a priority in a recession. Any loss of orders won't go well as Bombardier is banking on that $13.5 billion order book for growth. If the war eases, Bombardier stock could bounce back.

Should you buy Bombardier stock?

The stock is down 30% year to date and could fall further depending on war developments and oil prices. However, its long-term potential is intact. This is a good time to buy a turnaround story at a cheap price.

You saw what a recovery did to Bombardier stock — it had 130% growth in six months (April to September 2021). But beware; it carries a high risk in a recession. Do not buy the stock if the economy falls into a recession.

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