

Don't look for Bombardier stock to regain altitude soon

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For several years, Bombardier Inc.'s shares have risen and fallen along with hopes that the plane maker's C Series jet will, upon launch, transform the company into an earnings machine.

Right now is one of those falling times. Bombardier stock dropped more than 10 per cent last month, setting a 52-week low, after an earnings report that disappointed on multiple fronts. The Montreal-based company acknowledged yet another delay in the C Series' introduction, to the second half of 2015. It also reported underwhelming profit margins and issued disappointing guidance. Friday, it said it was freezing salaries for 38,000 nonunion workers.



A Bombardier Q400 NextGen aircraft in WestJet livery is shown in this illustration released by Bombardier on Tuesday May 1, 2012. Bombardier

[Video: Traders look to Suncor, airline earnings](#)



Bombardier's C-Series commercial jet takes off on its first flight on Monday, Sept. 16, 2013 in Montreal. Bombardier blew past BlackBerry as Canada's top R&D spender. THE CANADIAN PRESS

[Video: Market View: In a tough market, Bombardier's jet delay will hurt](#)



C Series

[Video: First look at Bombardier C Series jets](#)

At Friday's close of \$3.60 the stock has now wiped out 2013 gains that, at their high point, represented an 80-per-cent return for investors in less than a year.

For those who believe in Bombardier's ability to make an airplane that will successfully compete with giants Boeing and Embraer, the fading share price looks like an opportunity. With every poor quarter Bombardier announces, however, its turnaround moves further into the future – with the real possibility the descent will continue in 2014.

“What I'm telling my clients is if you need immediate gratification this year, forget it,” says Brian Langenberg, an independent analyst in Chicago with Langenberg & Co. who has covered industrial stocks for two decades. “If you need to see signs of progress this year that make you feel real warm and fuzzy about the second half of 2015, please call me back around December, because I assume this [pattern of earnings misses is] going to go on for a while.”

“The only reason the stock should be interesting to an investor right now is if they're willing to be disciplined and value-oriented and say, ‘You know, once they do get this freakin' thing in the air and it's hauling people, it's probably a \$7 stock.’”

However, the best-case scenario for when Bombardier gets the C Series in the air now seems to be late 2015. The company's recent results were so bad that ratings agencies downgraded Bombardier's debt and equity analysts began to openly wonder whether the company can make it to launch with the cash it has on hand.

Bombardier reported earnings before interest and taxes, or EBIT, of \$186-million (U.S.) for the fourth quarter, versus a consensus of \$295-million, says RBC Dominion Securities Inc.'s Walter Spracklin. EBIT margins at its Aerospace and at its Transportation division, where it makes rail cars, came in under 4 per cent, below expectations and well below management's long-term goal of 8 per cent.

Mr. Spracklin, who has a “sector perform” rating on the shares, believes the company won't need additional financing – if it meets its new, reduced guidance for profit margins and capital expenditures. The company has \$7.2-billion in debt, with \$1.7-billion of it coming due in 2016. “Continued C Series program delays put Bombardier in a much more difficult financing position as 2016 approaches,” he says.

Analyst Darryl Genovesi at UBS Securities LLC, who has a “neutral” rating on the shares, says he believes there will be at least one more delay in the C Series, and that Bombardier's “cash burn to come over the next few years is still underappreciated.” He sees the company, which has \$4.8-billion in cash, using \$2-billion of it from 2014 to 2016 to subsidize its operations and capital spending. If the C Series has cost overruns akin to Boeing's 787, however, he sees an extra \$3-billion to \$4-billion in cash outflows on top of that.

Anthony Scilipoti of **Veritas Investment Research**, who has a “sell” rating on the shares, says that Bombardier's missed and reduced guidance is particularly surprising since much of its revenue comes from orders placed well in the past, for future delivery. “It seems clear to us that management has very little visibility into its contracts,” he says.

While Bombardier's stock price “may seem compelling,” **Mr. Scilipoti** says, its debt levels and operational issues “will not support the cash flow demands of its development programs. We expect Bombardier's prospects to get worse before they get better.”

There are some dissenting voices. Nicholas Heymann of William Blair & Co. LLC has an “outperform” rating and \$6 (Canadian) target price on the stock. He believes investors are in one of their periodic funks about the outlook for Bombardier. Their fears about the company's ability to finance the C Series are overblown, he says, and he hopes the company will be able to reassure investors of that at its Investor Day on March 20.

However, to win back investor confidence, the company will have to demonstrate tangible results in execution, C Series orders, and the certification of its new aircraft, and that will take longer, he says.

“Exiting positions in Bombardier may seem appealing, but fear and loss of confidence have almost certainly (again) magnified perceived risk versus strong potential,” he says. The share price hit lows after a failed bond offering in November, 2012, but “three sequential quarters of improved operating execution and enthusiasm for the C Series’ first flight in September, 2013, lifted the shares over 80 per cent 10 months later.”

Mr. Langenberg suggests patience is essential. “From a long-term perspective, it’s a very attractive stock because it’s all about the C Series ... [Bombardier has] proven their ability to grow and make airplanes people want to buy. It’s not like anybody says the C Series is a plane that’s in trouble. They’re moving to a bigger weight class, in a big way, and they’re having learning-curve issues.”

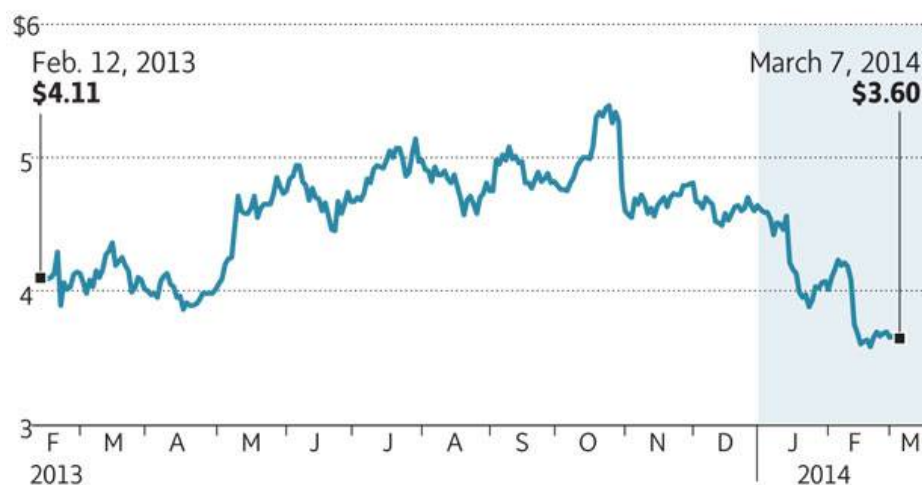
Investors in Bombardier have learned a few things too, such as how optimism and elation can give way to ennui and distress. The former feelings may indeed return at some time in the future. For 2014, however, count on the latter.

Bombardier’s turbulent flight

In millions of Canadian dollars; revenue and net income for previous 12 months

| REVENUE | MARKET CAP | TOTAL DEBT | NET INCOME | P/E RATIO* |
|-----------------|----------------|----------------|--------------|------------|
| \$19,906 | \$6,151 | \$7,900 | \$619 | 8.4 |

STOCK PRICE



**On a forward basis, based on estimated earnings*

THE GLOBE AND MAIL » SOURCES: BLOOMBERG; STANDARD & POOR’S CAPITAL IQ

| Security | Price Change |
|---|------------------------------------|
| BBD.B-T Bombardier Inc. | 3.75 <u>0.15</u> <u>4.167 %</u> |