Bombardier back on investors' radar screens

'NextGen' program that improves fuel burn, strong quarter renew interest in company's stock

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MONTREAL -- **Bombardier Inc.** has just launched its so-called "NextGen" program, an upgrade of its regional jets that includes fuel-burn improvement.

There's something powerful fuelling its stock, too, these days and it isn't just NextGen.

Bombardier shares rocketed ahead by almost 10 per cent on Monday, almost a week after the company reported solid first-quarter results that the markets lapped up.

The shares rose a bit more yesterday to $6.07, up 2 cents. The stock hasn't been this high since 2004.

There is strong momentum based on a rebounding regional jet market, still-strong business jet sales and improving rail division returns, but concerns are growing that the stock is moving too far. A number of factors are at work.

For one thing, there is a bit of a lemming effect, in that many institutional investors are piling back into the stock because they don't want to be left out of a rebound, says **Veritas Investment Research** analyst **Anthony Scilipoti**.

"It was largely a U.S. institutional holding and the Canadian guys lost interest and all of a sudden it moved and all the indexers piled in," he said. "Granted, it was a decent quarter, no question," says **Mr. Scilipoti**, a long-time skeptic who for years questioned Montreal-based Bombardier's aggressive accounting methods.

"One quarter does not a turnaround make, but the trend is positive," he adds, saying he's still closely scrutinizing the rail and aerospace divisions' numbers in order to assess whether improving profit margins are sustainable over the longer term.

Also to be considered, **Mr. Scilipoti** believes, is the fact Bombardier's balance sheet is in better shape than it has been for several years. Bombardier has recently written off a lot of development and other expenses, so first-quarter financial results show a distinct improvement, he said.

The question is whether there is a strong enough outlook going forward - beyond the improved profit picture reflected in the first quarter - to warrant the runup in the stock, he added.

He says he's still puzzling over that one.

The rest of the analysts are all over the map, with targets ranging from $4.90 to $6.75. For CIBC World Markets Inc. analyst Tim James, Bombardier has a robust growth story.

"We believe that increasing revenue growth and steady margin expansion combined with a solid industry backdrop will lift Bombardier's share price over the next two years," he wrote in a research update. Mr. James maintained his "sector outperform" rating and raised his 12- to 18-month price target to $6.20 from $5.50.

Benoit Poirier of Desjardins Securities is also keen, bumping his target to $6 from $4.95.

More bearish is Cameron Doerksen of Versant Partners.

"While the [first-quarter] aerospace margins [5 per cent] showed progress towards the company's goal [of 8 per cent within three years], we believe the stock now more than fully reflects the improving outlook for the company," he wrote in an update. His new one-year target is $5, up from $4.40, but he reiterated his "sell" rating.

What could make or break the momentum in the stock is the Canadian dollar.

Bombardier's long-term Canadian-to-U.S. dollar average cost assumption during the first quarter was $1.15, but the rate now sits at $1.07, Mr. Doerksen explained.

"This is clearly bad news for Bombardier since it sells its aircraft in U.S. dollars, but has a significant Canadian dollar cost base with its major aerospace manufacturing facilities in Canada," he said. "Indeed, in the past several years essentially all of Bombardier Aerospace's productivity improvement and cost-cutting initiatives have been wiped out by unfavorable foreign exchange."

As Mr. Doerksen said, if the Canadian dollar doesn't back down, those margin improvements that the market is hoping for may not actually happen.