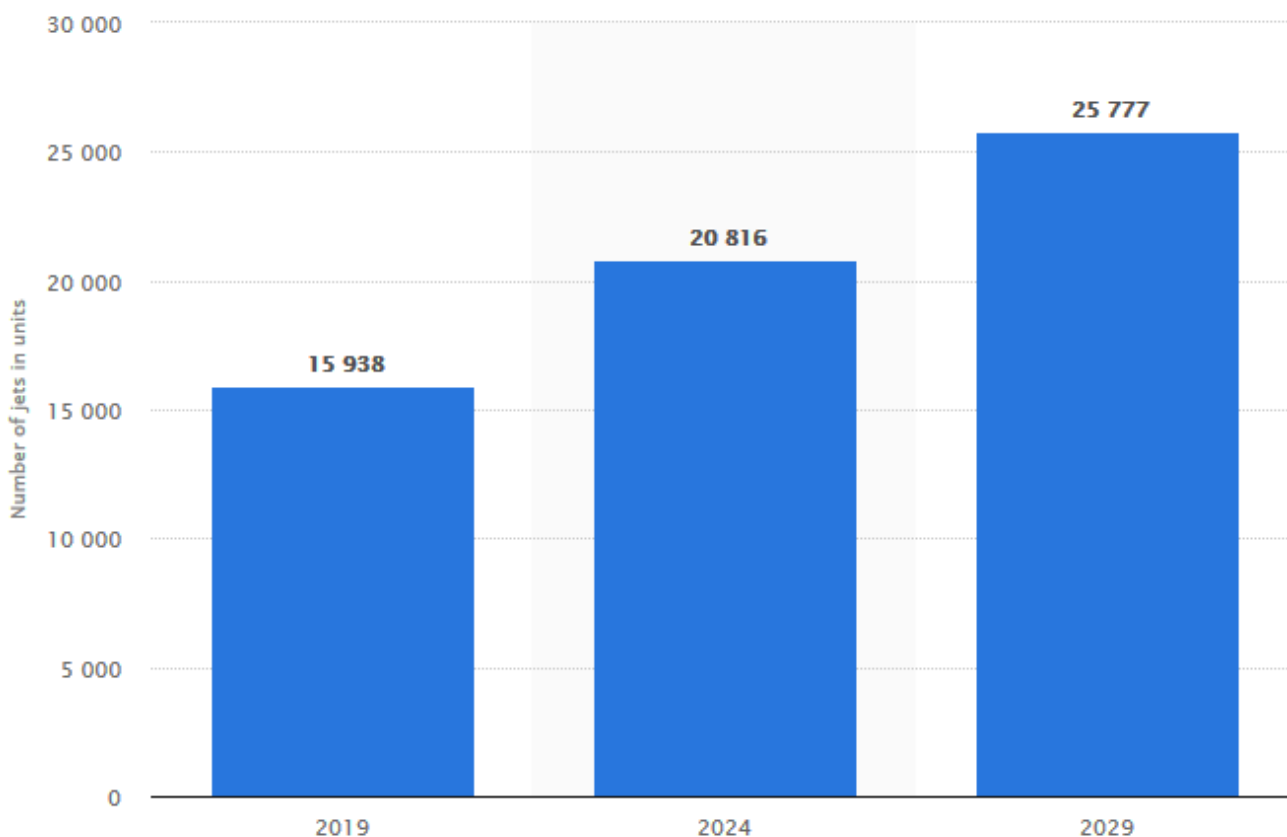


Bombardier – A turnaround is near

The aviation industry is booming as the global middle class rises and begins to travel more. Lower airfares from discount carriers mean more and more people globally are experiencing the joys of airline travel. Since 2005 passenger air travel has more than doubled while at the same time, it has been noted in 2017, ~80% of the world's population has never flown. This shows the tremendous potential growth ahead for the aviation sector, as travel opportunities and personal incomes continue to rise. Airlines must continue to build their fleets and are choosing the best priced and most fuel economical planes.

Projected number of narrow-body jets in the global aircraft fleet from 2019 to 2029



Statista: Projected number of narrow-body jets in the global

aircraft fleet from 2019 to 2029

The current dramas in the airline industry particularly with the Boeing 737 Max are opening up opportunities for other airline players such as Airbus, Bombardier, and Embraer. In particular, the mid-sized aircraft segment looks likely to have a strong demand for regional flights particularly throughout Asia.

Bombardier Inc. (TSX: BBD.B | OTCQX: BDRBF), a global leader in the transportation industry, creates innovative game-changing planes and trains, on production and engineering sites in 28 countries across the globe. Bombardier began as a snowmobile manufacturer in 1942 and entered the business jet market through their Canadair and Learjet acquisitions. Canadair had acquired the manufacturing rights to an innovative business jet designed by Learjet founder William Lear. They have now grown into one of the world's largest manufacturers of rail cars, business jets, and regional airliners (mid-size aircraft). With 100 years of passionate business behind them, Bombardier has sold over 3000 planes moving more than 4 million passengers to 130 countries. Bombardier has over 68,000 employees across four business segments.

Bombardier's trains

Bombardier Transportation also produces a wide range of products including passenger rail vehicles, and locomotives. They also cover a full spectrum of rail solutions, ranging from trains to sub-systems, e-mobility technology and data-driven maintenance services covering 500 customers in 60 countries. As an example, Bombardier Inc. announced in April it had signed a \$342.6 million contract with an Australian state government to upgrade a regional train fleet. Every single day, 500 million passengers rely on Bombardier Transportation mobility solutions to stay on the move.

Bombardier state they are the world's leading plane and train manufacturer



Bombardier – The world's leading manufacturer of both planes and trains

Bombardier's financials are improving and valuation is now appealing

In the fiscal year ended December 31, 2018, Bombardier posted revenues of US\$16.2 billion and net profit of US\$236 million. These are forecast to steadily improve each year with the 2021 revenue forecast to reach US\$20.4 billion, and the net profit forecast to reach US\$817 million. That is a 3.5 fold increase in net profit forecast over the next 3 years.



OPERATING FLEXIBILITY

- ❑ **\$3.3B** cash on hand
- ❑ Additional **\$250M** expected from closing of the *Q Series* transaction mid-year
- ❑ New 8-year **\$2B** Senior Notes cleared maturities through May 2021
- ❑ Extended revolving credit facilities terms to **2022**

Recent news

With a list price of about US\$73 million Bombardier Inc.'s Global 7500 private jet set a record for traveling between Los Angeles and New York City, shaving about 90 minutes off the time it takes an airliner to make the coast-to-coast trip.

Bombardier has come through a difficult patch starting since the GFC due to high product development costs (CapEx), high debt, strong competition from Boeing and Airbus, a patchy business jet market, and years of negative cash flows. This has resulted in the Bombardier stock price being beaten down.

Looking forward Boeing's pain could be Bombardier's gain. Bombardier's 38% interest in the Airbus A220 should also do well if it gains market share. Bombardier should be looking at a strong decade ahead with strong orders expected as a result of the surging demand for mid-size aircraft, particularly from Asia. Short term product development costs are now behind them, and their debt should begin to decline due to strengthening cash flows. Low net profit margins (currently just 1.45%) should also begin to improve. The train segment should also be a strong contributor.

Given Bombardier trades on a 2020 PE of just 10.6, and has an

analyst's consensus target price of C\$3.84 representing a 75% upside. The risk lies with aviation risks, a significant debt, or a global economic and/or travel downturn.