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Bombardier Leads the Pack When it Comes to this Dubious Distinction

Description

There exists an oft-over looked variable that can have sizeable implications on a company's future – and more importantly for investors, the returns on its stock.

The variable is, pension liability and in this age of low interest rates, it's something that's wreaking havoc on corporate Canada.

Defined benefit pension plans have turned into a bit of a dinosaur as companies are either closing them to new participants or just plain closing them period.

However, there remains a collection of some of this country's better known companies that continue to be lassoed by these legacy related instruments.

Interest rate impact

Interest rates have the same kind of an impact on defined benefit pension plans as they do on life insurance companies.

You see, both are saddled with very long-term liabilities. For accounting purposes, these liabilities need to be reported in today's dollars. This is known as "present value". To calculate the present value of these liabilities, the total liability (numerator) is essentially divided by a representative interest rate (denominator). When interest rates are low, so too is the denominator, thus inflating the present value of the liability.

The other impact that low rates have is on the asset side of the equation. Pension plans obviously have assets to invest. The intent is to grow these assets so that they can cover the plan's liabilities. When interest rates are low however, it impacts the ability to grow this asset base. Typically, more risk is required to achieve the same kind of return that has historically been available.

On to the companies

With pension plan 101 out of the way, let's move on to see which Canadian large-cap companies currently face the biggest pension liabilities in relation to their total asset base. A disproportionate liability can lead to cash calls from the company, which results in less cash being available for such shareholder friendly moves as paying or raising the dividend, or buying back stock. Pension plans can be a significant drain on a company's liquidity and offer very little in return for current shareholders.

Tabled below are those that are strapped with the largest relative liabilities:

Company Name	Pension Liability (MM)	% of Total Assets
Bombardier (TSX:BBD.B)	$2,631.5	9.0%
Imperial Oil (TSX:IMO)	$2,593.0	7.4%
CP Rail (TSX:CP)	$1,104.0	7.1%
BCE (TSX:BCE)	$2,680.0	6.2%
Telus (TSX:T)	$1,221.0	5.9%

Source: Capital IQ

The Foolish Bottom Line

As a stand-alone item, you're unlikely to make a stock call based solely on the state of the company's pension plan. However, if you're comparing one company to another, all else being equal, you're likely to be better served by the company with the smaller relative pension liability.

None of the companies mentioned above made the cut in our **FREE** report "**5 Companies That Should Replace Your Canadian Index Fund**". **Click here now** to find out which companies did qualify – one of which was recently taken over at a huge premium.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned above. The Motley Fool does not own shares in any of the companies mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:BCE (BCE Inc.)
3. TSX:CP (Canadian Pacific Railway)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:T (TELUS)

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