



3 Simple Reasons to Avoid Bombardier, Inc.

Description

The past few years have not been very fun for shareholders of **Bombardier, Inc.** ([TSX: BBD.B](#)). Since early April 2011, the stock has fallen by nearly half. Problems in the company's aerospace division, especially with regards to the CSeries jet, have been the main culprit.

Has this provided investors with an opportunity? Are the shares now a bargain? Well, not necessarily. Below are three simple reasons to stay away from Bombardier.

1. Negative cash flow

Over the past few years, Bombardier has been spending more cash than it has been making, and this should be very concerning for its shareholders. For example, free cash flow was negative \$687 million in 2012. Last year, free cash flow was negative \$977 million. Cash continues to go out the door this year, and analysts are predicting the same for next year as well.

This puts tremendous pressure on the company's balance sheet. To illustrate, long-term debt stood at \$4.7 billion at the beginning of 2012. As of the most recent quarter, that number is now \$7.7 billion. So there is much less room to maneuver, and if things continue to go wrong at Bombardier, that could spell big trouble.

2. Turmoil

Bombardier is taking some dramatic steps to reform its aerospace division, which has been the source of its problems. A new operating unit will be created, and all operating units will report directly to the CEO. Ideally, this will increase accountability. Furthermore, there will be significant staff cuts, which could save \$136 million per year according to one analyst. This is a positive, right?

Maybe not. The aerospace division has been struggling to meet deadlines for the CSeries jet, and now many employees are wondering if they'll even have a job. Also, with the corporate structure getting reorganized, numerous things can go wrong. None of them are visible to the investor, but they can have a dramatic impact on performance.

3. Russia

Last but not least, Bombardier is negotiating with the Russian state-owned conglomerate Rostec to build Q400 turboprops in Russia. Bombardier does other business in the country — its rail unit has a big presence in Russia's signalling market, and Bombardier also sells business aircraft in the country.

Of course, this is a very dicey situation, with Russia essentially having launched an invasion of the Ukraine. Western countries have already imposed sanctions on Russia, possibly with more to come, and Russia has retaliated with import bans of its own.

One would be crazy to think it won't get worse. Vladimir Putin's actions are very popular in Russia, and he faces constant pressure to not back down (not that he needs any). Meanwhile, Prime Minister Harper is taking a very strong stance against Russia, which should surprise no one. Over 1.2 million Ukrainian-Canadians live in Canada, and Mr. Harper cares much more about them than Bombardier's corporate interests.

So as an investor, your best bet is to watch this all play out — from a distance.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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