



## Bombardier Inc.: Beware the Cash Crunch

### Description

**Bombardier Inc.** ([TSX:BBD.B](#)) just announced the immediate departure of Ray Jones, who happens to be the top person responsible for selling the new CSeries jets. Jones is the second senior sales executive to exit the troubled company in the last 12 months, and his departure is another red flag for investors.

Bombardier's shareholders have been reasonably patient given the extended delays and cost overruns in the CSeries program, which is now two years behind schedule and about \$1 billion over budget.

That patience might start to run out very quickly now that 2015 has arrived and the clock is ticking on Bombardier's year-end delivery deadline for the first CSeries planes.

### Cash concerns

Bombardier's Q3 2014 earnings statement sent out a few warning signals, but the market preferred to overlook them. Instead, pundits and fans focused on the fact that the company marginally beat earnings estimates. The big standout item in the report should have been the huge reduction in cash available to run the company.

As of September 30, 2014, Bombardier reported cash and cash equivalents of \$1.9 billion. That doesn't look so bad until you flip back to the start of 2014 and realize the cash balance at the beginning of the year was \$3.4 billion. Yes, the company burned through \$1.5 billion or roughly 44% of its cash in just nine months.

In the Q3 statement, management said it was confident the company could still satisfy its capital and dividend objectives. In addition to the cash balance, the company had a revolving credit facility of \$1.4 billion available at the end of the third quarter.

As long as cash flow from operations meets expectations, the finance guys are probably right, but this means the company has to get its first CSeries jets into commercial operation in the next 12 months.

Unfortunately for shareholders, the track record on the CSeries project is brutal, and time is running out.

### **Debt bomb**

Bombardier has a lot of debt on the balance sheet. This is normal for a plane manufacturer because the customers don't usually pay for the jets until they are delivered.

The big concern for Bombardier's shareholders right now is a \$750 million debt obligation that comes due next year.

Here's a look at Bombardier's debt profile.

[Bombardier Inc. Debt Maturity Profile](#)

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*Source: Bombardier Inc. Q3 2014 Earnings Report*

If the company doesn't think it is going to meet the year-end deadline to ship its first planes, it will have to raise cash to pay the \$750 million due next year. This would probably be done well in advance in order to minimize the risk of a default and the consequent meltdown in the stock price.

If Bombardier raises cash in the near term, the stock will still get hit, because the market will take the move as a signal that the CSeries program is being delayed again.

### **Should you buy?**

The contrarian gang likes this kind of situation, and I'm normally game. After all, if the company meets the delivery deadline, the stock will probably rocket higher.

Nonetheless, I think it is best to sit on the sidelines and wait to see how the numbers look for Q4 2014 and the first quarter of 2015. The cash situation might have deteriorated, and that could bring forward the need to raise funds.

More importantly, it normally isn't a good sign when the top sales person in a struggling division leaves

the company in a hurry.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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