4 Steps for Bombardier Inc. to Win Back Investors

Description

To say the least, **Bombardier Inc.** (TSX:BBD.B) has had its fair share of problems in recent years. Delays and cost overruns have caused the company to bleed serious cash, which has led to an overstretched balance sheet. Making matters worse, there has been plenty of turnover among the company's senior management, and no one really trusts CEO Pierre Beaudoin anymore.

But one man has a solution: Massimo Bonansinga, a portfolio manager at CI Signature Global Asset Management. While speaking to *BNN*, he laid out a four step plan for Bombardier to win back investors. Below, we take a look at each of these steps.

Step 1: Eliminate the dividend

It's hard to argue with Mr. Bonansinga on this one. After all, there are serious concerns about Bombardier's financial position. Its bonds have plunged in value over the past month, right when many observers think the company needs to raise more debt. So why on earth would it pay a dividend? Doesn't it need to preserve whatever cash it can?

These arguments are convincing, but it's highly unlikely that Bombardier will take this step. The company has been trying to convince the investment community that it's on sound financial footing and that eliminating the dividend would undermine those efforts. It's why we don't see companies cut their dividend more often; it's usually done only as a last resort.

Luckily, Bombardier's dividend isn't very large anyways: at US$170 million per year, it's not much for a firm with US$3.8 billion in liquidity. So while cutting the dividend would be helpful, it shouldn't be necessary.

Step 2: Secure cash needs

This could mean any number of things. But most analysts agree that for Bombardier to secure its cash needs, it needs to borrow more money. This will not be easy.

Bombardier has an incredibly scary balance sheet, with US$8.3 billion in debt and other obligations.

On the bright side, the company does have US$3.8 billion in liquidity, including US$2.4 billion in cash. But cash flow continues to be negative, which will put that liquidity under pressure, and $750 million worth of debt is due by early next year.

So Bombardier will have a tough time convincing anyone to lend it more money. But it may be necessary.

Step 3: Get the CSeries going

This is the most critical step because if the CSeries is delayed again, then the company could easily run out of cash. Mr. Beaudoin is sure that there will be no more delays. But not everyone is convinced.

In fact, one analyst has said that Bombardier is “borderline delusional” if it thinks the CSeries can be ready by the end of this year. The company’s shareholders better hope that this analyst is wrong.

Step 4: Improve margins

If steps 1-3 are completed, then this will likely be the easiest step. After all, the company continues to generate strong orders for its products, which bodes well for future sales. And with increased revenue should come increased scale, which ideally leads to higher margins. Bombardier’s recent efforts to reorganize the Aerospace division should also help the bottom line.

If Bombardier is able to complete these four steps, shareholders could easily double their money, or more. But as you can see, this is no easy task. I would stay on the sidelines.

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