Why Bombardier Inc. Is Finally Going in the Right Direction

Description

Not long ago, portfolio manager Massimo Bonansinga laid out a four-step plan for **Bombardier Inc.** (TSX:BBD.B) to win back investors. I wrote an article about this plan here.

And with Thursday's news, it seems Bombardier is intent on completing steps 1 and 2 right away. First of all, the dividend is being eliminated. Second, the company plans on raising up to US$1.5 billion in new debt, US$600 million in new equity, and maybe further funds from the sale of business units.

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Perhaps most significant of all, CEO Pierre Beaudoin is stepping down. Although this wasn't part of Mr. Bonansinga's plan, Mr. Beaudoin had lost the confidence of many investors. So this may sound harsh, but his departure will generally be viewed as a positive.

On that note, below we take a look at each of Bombardier's latest moves.

1. Securing cash needs

It was becoming increasingly clear that Bombardier was running out of cash. True, it did have US$3.8 billion in liquidity last month, but the company has been rapidly burning through cash, mainly due to spending on the CSeries. Making matters worse, US$750 million of debt is due in early 2016. It's no wonder that "securing cash needs" was one of the steps in Mr. Bonansinga's four-step plan.

And to Bombardier's credit, it is dealing with this issue the right way. First of all, the company is tackling the issue before the back half of 2015, when raising money could be a lot harder. Secondly, by raising equity, the balance sheet won't be quite so stretched, something that should appeal to creditors. Finally, Bombardier seems very willing to sell off business units. This last step would not only improve the balance sheet, but also help Bombardier achieve greater focus.

2. Eliminating the dividend

Earlier this month, I argued that Bombardier was unlikely to eliminate the dividend, even though it should do so. The fact is, companies don't like taking away dividends — it sends a very bad signal to investors, and is often seen as a sign of desperation.

But with Bombardier raising so much equity (as well as pushing out its CEO), it's clear the company is in dire straits anyways. So eliminating the dividend doesn't really tell us anything new. And because the company has taken this step — which was also one of Mr. Bonansinga's recommendations — Bombardier will save about $170 million this year, just based on the existing share count.

3. A new CEO

Although Mr. Bonansinga was not calling for Mr. Beaudoin to step down, plenty of others were. For example, *The Financial Post* quoted Agilith Capital portfolio manager Patrick Horan as saying, "I hope Mr. Beaudoin has taken a good look at the stock price and has seen the potential here for capital markets to close on him. He needs to think really carefully about his leadership."

For a while, Mr. Beaudoin was protected by a dual-class share structure. In other words, as long as the board of directors was willing to keep him on, outside shareholders could not force him out. But eventually, even that was not enough to save his job.

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So should you buy the shares?

Clearly, Bombardier has taken some steps in the right direction. But step 3 of Mr. Bonansinga's plan — "Get the CSeries going" — is far from complete. Until the company has crossed that line, I think the shares remain too risky.

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