Bombardier Inc.: Reading the Tea Leaves Would Have Saved Some Pain

Description

The few remaining investors in beleaguered **Bombardier Inc.** (TSX:BBD.B) might want to take a hard look at preserving what's left of their capital as the media, markets, and even a provincial government start to question the company's ability to remain solvent.

Bankruptcy concerns

The Quebec government just announced it is prepared to extend Bombardier a lifeline if the company's cash situation deteriorates to the point that it has to apply for creditor protection.

Bombardier's cash flow troubles are not new, but the market spent most of last year in an "Emperor's New Clothes" state of disbelief about the situation.

Bombardier finished 2013 with about $3.4 billion in cash and cash equivalents. By June 30, 2014, that number had fallen below $2.5 billion, and by the end of the third quarter, the cash position stood at $1.94 billion. That means the company burned through $1.46 billion in cash in just nine months.

In the Q3 2014 earnings statement released on October 30, Bombardier said it had ample liquidity to meet its ongoing capital requirements and cover declared dividends. This sounded a bit optimistic, but the market bought the story.

On November 14, I wrote this article to point out the cash flow risks. The market didn't see things the same way because the stock continued to rise and finished November near its 12-month high of about $4.40 per share.

On January 8, Bombardier announced its top aerospace sales executive, Ray Jones, was leaving the company. The market simply ignored the news, even though he was the second senior sales person in the aerospace group to leave in the last 12 months. On January 12, I penned another article that suggested the departure was a bad sign, and investors should keep their heads up.

At that point, Bombardier still traded above $4 per share. Two days later, the company admitted that things weren't going so well, and the stock finally hit the skids.

Sometimes, reading the tea leaves can be difficult and retail investors are often the ones left holding the bag when a company's fortunes suddenly turn sour, but the writing has been on the wall in the case of Bombardier for quite a while and it has been scribbled out in big fat letters.

The reality of the situation came to full light on February 12, when Bombardier reported its Q4 2014 numbers. The company cancelled the dividend, introduced a new CEO, and announced plans to raise up to $2.1 billion in cash by issuing $600 million in equity and $1.5 billion in debt.

On February 19, the company announced a bought deal for $750 million at a huge discount to the already-low stock price. Some investors are looking at this as the point of departure for a rebound, but that might not be the case. Shareholders still have to approve the equity issue and the debt market is going to command a very high rate of interest to take on the risks associated with lending Bombardier more money at such a precarious time.

Bombardier is one of Canada's "too important to fail" companies. If the market is unwilling to cough up the needed cash, taxpayers will probably be forced to bail the "Bomber" out. If that happens, the existing equity is probably toast.

What should investors do?

If you already own the shares, I would take a loss and move on. The company will not disappear but shareholders are probably in for a rough ride.

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1. Investing

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1. Editor's Choice

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