

Is Now Finally the Time to Buy Bombardier Inc.?

Description

On Thursday, **Bombardier Inc.** ([TSX:BBD.B](#)) took its first step toward an attempted turnaround, releasing details about its equity financing plan.

The plan called for 339.4 million “subscription receipts” (which get converted into common shares upon shareholder approval) to be sold for \$2.21 each, raising \$750 million in cash for the company. The \$2.21 price is 10% below where Bombardier’s shares traded before the announcement.

The Globe and Mail has reported that the subscription receipts have been selling well, which should be no surprise, given the generous discount. Many of the investors buying these receipts may just be trying to make a quick buck.

Is this the beginning of a Bombardier revival? Or the beginning of the end? Below we take a look.

The plan

It’s no secret that Bombardier has been struggling. The company has been bleeding cash for years, mainly due to the CSeries program, and as a result has had to pile up debt. Making matters worse, US\$750 million of debt is due by early 2016. So Bombardier was staring at the possibility of a cash crunch, should the CSeries run into any more delays.

In response, the company announced a drastic plan just a few days ago, in which it would raise US\$2.1 billion in debt and equity. The dividend was also eliminated. And finally, CEO Pierre Beaudoin announced his resignation.

Looking ahead

Bombardier’s plan is certainly a step in the right direction, and very necessary given its circumstances. But will it be enough to revitalize Bombardier?

Well, that depends on the outcome of the CSeries. Bombardier has secured 243 firm orders for the jet, but doesn’t collect most of that cash until the planes are actually delivered. Until then, you should expect cash flow to remain negative. So if the first jets aren’t ready by the end of this year — as Bombardier has promised — then the shares could plummet.

If history is any guide, there will be more delays. And numerous analysts are convinced there is no way the company will meet its latest deadline. So if you were still wondering why Bombardier is raising cash this early in the year, now you know.

So what should you do?

Before Bombardier announced its fundraising efforts, its shares traded for more than \$3. And back when there was more optimism surrounding the CSeries, the stock price was much higher. So if

Bombardier's outlook turns brighter, the shares could easily take off, and there may be an opportunity to make a nice profit.

But as can be seen above, the risks associated with this stock are way too high, even after the company raised new funds. You're better off investing elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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