



Bombardier Inc.: Boom, Bust, or Bailout?

Description

It's been a rough February for **Bombardier Inc.** ([TSX:BBD.B](#)). First, it reported a net loss of US\$1.6 billion, then it announced that it would be cancelling its dividend. These announcements, coupled with crippling debt and the overspending on the CSeries, have shaken investors and analysts alike.

The recent revelations from Bombardier have also moved the Quebec government to prepare for a potential bailout. The Government of Quebec has stated that "the province stands ready to provide financial assistance to Bombardier if its balance sheet deteriorates."

Officially, Bombardier has yet to approach the government for any type of financial assistance, but the fact that the Quebec government is preparing a contingency has done little to ease the nerves of investors. On the other hand, some analysts believe that Bombardier should accept the helping hand in order to bring some stability to the books that are burdened with over \$10 billion in debt.

Bought deal lifeline

When Bombardier announced that it would be ending its dividend, it also announced that it would be securing \$1.5 billion in additional long-term debt, and would raise another \$600 million in a bought deal offering. One week later, Bombardier decided to increase its bought deal offering by 25% to \$938 million, further cementing the opinion of some investors that the debt issue is worse than the company is willing to acknowledge.

Like most bought deal offerings, Bombardier is looking to sell 424 million shares to investment banks for \$2.21 per share, which is a discount of 12%. The bought deal offering also includes an option for the investment banks to pick up an additional 63 million shares. Bombardier is hoping that if all of the options are picked up, it will generate \$1.08 billion in additional capital on top of the \$1.5 billion in long-term debt it is seeking.

Bombardier tests the skies as investors test the waters

To ease the nerves of investors and potential bought deal suitors, Bombardier coupled the announcement of the 25% increase in the offering with an announcement that it would be entering the

next phase of flight tests for the CSeries. Bombardier has just received approval from the government to begin flight tests later this week with the CS300, the largest of the CSeries product family. Following an engine fire last spring, Bombardier has been able to log over 1,000 hours of four CS100 prototypes.

Chinese consolidations and Russian sanctions

One bright spot for Bombardier has been its rail division, which has managed to keep the company afloat through the difficulties it has experienced in its aerospace division. That fiscal safety net may be at risk now, however, as China's two government-controlled train manufacturers, CNR and CSR, have announced that they are merging. This will create a company with annual revenues of US\$26 billion, compared to Bombardier, which generated \$9.6 billion in revenues in its rail transportation division.

The newly merged Chinese company will be able to offer lower prices, which could push Bombardier out of negotiations with municipalities and governments that have limited funds available.

Across the border in Russia, Bombardier has already lost over US\$3 billion in contracts that have been "put on hold." Bombardier may also have lost an agreement with Russian conglomerate Rostec to produce the Q400 turbo prop.

Should investors bail or wait for a bail out?

This negative news has taken its toll on Bombardier's average price target. In January, the stock was showing upward momentum and the average price target was \$4.00. Following the recent revelations, the average price target has plummeted to \$2.00. Even if Bombardier is able to have a successful bought deal offering of around \$1 billion, the company will still be a long ways from recovery.

Investors are caught in a difficult position between the nepotistic leadership at Bombardier and the stark realities being faced by the company. Bombardier has pulled out all the stops to maintain investor confidence, but investors have yet to buy into the strategies. A bail out would open up capital that Bombardier could use to keep up with its competitors, but if the situation doesn't improve, the company could very well become "grounded."

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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