



Will Bombardier Inc. Sell its Train Business to the Chinese?

Description

Not much has gone right for **Bombardier Inc.** ([TSX:BBD.B](#)) in the past few years. Of course, its biggest problem has been the CSeries jet, which has been plagued by delays and soaring costs. As a result, the company had over US\$7 billion in debt at the end of 2014.

A few steps have been taken to shore up the balance sheet. It raised over US\$2 billion in debt and another \$1.1 billion in equity. Its Learjet 85 program was suspended indefinitely. Finally, the company is considering a sale of its train business, Bombardier Transportation (BT). This last step has made some investors very optimistic. After all, BT could fetch around US\$5 billion, more than Bombardier's market capitalization.

And on Wednesday both *Reuters* and *Bloomberg* reported that Chinese state-owned companies CSR Corp. and China CNR Corp. are looking closely at BT. So, what exactly does this mean?

The story

According to an unnamed source, CNR and CSR are considering acquiring a controlling stake in BT. Such a transaction wouldn't take place until after CNR and CSR complete their previously announced merger.

Buying BT would be very helpful to CNR and CSR (both state-owned companies). They are already the world's largest train makers by revenue, but derive most of their business from domestic contracts. BT would give the combined company access to other markets all over the world.

All sorts of hurdles

Personally, I don't see such a transaction being allowed to go through. The politics simply don't work.

Let's start with the Quebec government, which has a very close relationship with Bombardier. In February Economy Minister Jacques Daoust even said the province was ready to bail out Bombardier should the company run into further financial trouble. And there's no way Quebec would favour such a transaction. It didn't even allow **Rona Inc.**, a struggling home-improvement chain, to be bought by

American competitor **Lowe's**.

The Canadian government may also have a problem. It's blocked the Chinese before, and an election is coming up in October. Frankly, I don't see the Conservative government even considering this.

Furthermore, BT is actually headquartered in Germany, and the German government may have a problem with this.

How should you react?

Frankly, I don't see this news as significant—the Chinese simply won't be allowed to buy BT.

With that said, I think it's a good idea to avoid Bombardier at this point. There are simply too many problems with the CSeries, and the stock could fall further as a result.

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1. Investing

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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