



Why Bombardier Inc. Is Particularly Vulnerable to a Grexit

Description

It now looks more likely than not that Greece will exit the Eurozone. And if you think Canadian stocks will be unaffected, think again.

Bombardier Inc. ([TSX:BBD.B](#)) is especially vulnerable, and for that reason, the company's shares sunk by as much as 6.2% on Monday.

So, just how bad is the news?

The threat of contagion

A so-called Grexit would be catastrophic for the Greek people, and is also a big risk for the rest of Europe. In the worst-case scenario, other weak economies—Spain, Portugal, and Italy—would see an outflow of capital as investors lose confidence. This would make it harder for these countries to service their debts.

If creditors take a hard line, and these countries resist austerity (as we have seen in Greece), then you could see more countries default and exit the Eurozone. This could eventually lead to the collapse of the currency union, and a deep recession for the continent.

Few believe this scenario will actually play out. But we are in uncharted territory, and no one likes uncertainty. Thus, Bombardier's customers in Europe may be more hesitant to press the order button.

How exposed is Bombardier?

Let's take a look at Bombardier Aerospace first. This segment has been getting all the attention recently thanks to the company's struggles with the CSeries. And Europe's problems won't help either. To put this in perspective, Europe accounted for just under 20% of Bombardier Aerospace's revenues last year.

In the future this number will likely decrease. Bombardier estimates that 13,100 aircraft in the 20- to 149-seat category will be delivered over the next 20 years, with Europe accounting for 14% of the total.

China alone will account for more deliveries. But Europe is still a very important piece of Bombardier Aerospace's business.

Bombardier Transportation is an even bigger concern

Bombardier Transportation is based in Germany, and last year 57% of its revenue came from Europe. So, a Grexit could turn into a big problem for Bombardier Transportation.

How big? We'll find out fairly soon. Bombardier is expected to sell a portion of Bombardier Transportation to the public. At that point, we'll know how much the division is worth in the public's eyes. Previous estimates called for Bombardier Transportation to be valued at anywhere from US\$3 billion to US\$5 billion.

Another big negative

A Grexit would affect Bombardier in one other way: it would lead to lower oil prices.

This would happen for a couple of reasons. First of all, a weakened European economy would lessen the demand for oil. Second, the U.S. dollar would strengthen as investors pull their money out of Europe and into safer geographies. Both would be bad for oil prices.

And this would be bad for the CSeries, whose best-in-class fuel efficiency is more significant with higher oil prices.

All in all, no one really knows what's going to happen next. So, Bombardier's shareholders should buckle their seat belts.

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