



Could Bombardier Inc. Get Bought Out?

Description

Whenever a company runs into trouble, and its stock price plummets, investors inevitably wonder if the company will get bought.

Is this a possibility for **Bombardier Inc.** ([TSX:BBD.B](#))? After all, its stock price has sunk by 60% in the past year, and may look cheap to a potential acquirer.

We take a closer look below.

An odd mix

As we all know, Bombardier is the only maker of both planes and trains. And there's a reason for that. The two businesses have very few synergies, and as a result tend to work independently. Meanwhile, other companies prefer to focus on one or the other.

This would likely be a big hurdle for any potential acquirer. For example, a company like Siemens may be interested in Bombardier Transportation, but doesn't want to be stuck with Bombardier Aerospace. Meanwhile, a company like **Airbus Group SE** may be interested in planes, but isn't interested in the trains business.

So, any sale of Bombardier would require multiple steps. The first may occur later this year—Bombardier is planning to divest a minority stake in its Transportation business through a public listing. But the company doesn't want to sell the whole unit, and has no plans to sell Bombardier Aerospace either.

Too much debt

Companies with big debt loads tend to make poor acquisition targets.

To understand why, consider a hypothetical company with \$1 million in assets but \$10 million in debt. Investors clearly would expect this company to declare bankruptcy, wiping out equity holders entirely. But it would still have a positive stock price because there's always a chance of a recovery, and equity

holders know there's a lower limit of zero.

No firm would want to buy out this company, even if it were free, because it would then be stuck with the \$10 million in debt.

To be fair to Bombardier, its situation isn't that bad. But Moody's just downgraded the company's bonds, citing "very high" debt levels. Should bankruptcy occur, shareholders wouldn't have to shoulder the entire debt burden, but an acquirer would. Thus, an acquisition simply wouldn't make sense.

The Quebec government

Bombardier's long history in Quebec has given it a special relationship with the province's government. In fact, earlier this year, Quebec's economy minister even said the province would provide financial assistance to Bombardier if needed.

The Quebec government also has a history of blocking mergers. For example, it rejected the sale of struggling home improvement retailer **Rona** in 2012. If paint and lawnmowers are worth saving from foreign predators, surely the government would block a sale of Bombardier, too.

So, the only company that can save Bombardier is Bombardier itself. Shareholders should keep this in mind, and not expect any quick results.

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