



## Is Bombardier Inc. Really Headed to Bankruptcy?

### Description

To put it bluntly, **Bombardier Inc.** ([TSX:BBD.B](#)) is a mess.

The company's CSeries program is the cause of most of the problems. Since being announced back in 2004, the program has suffered from cost overruns, delays, mechanical issues, and more.

More than a decade since the program was originally announced, the company still hasn't started delivering planes yet. After deliveries were delayed twice, the company is sticking to its latest. It plans to start sending out planes to customers during the first half of 2016. Obviously, after so many delays investors aren't taking Bombardier's latest deadline very seriously.

The delays in the CSeries have led to another problem, and that's with the company's balance sheet. Bombardier has burned so much cash that investors are nervous about its very survival. As I write this, shares trade at just \$1.37 each, which means they're essentially priced as an option on the very survival of the company. If it manages to pull out of this funk, shares could end up much higher. If not, equity investors are looking at a total loss.

Which outcome is more likely? Let's take a closer look.

### The case for bankruptcy

It's easy to see why investors are concerned about Bombardier going bankrupt. One look at the balance sheet is all you need to see it's pretty ugly.

At the beginning of the year, Bombardier was sitting on \$3 billion in cash and \$7.6 billion in total debt. Six months later, the total cash pile was higher at \$3.6 billion, but total debt had ballooned to more than \$9 billion. And during that time the company sold nearly 500 million new shares for total proceeds of more than \$1 billion. Put it all together, and you've got a company that's burning easily more than \$1 billion per quarter.

With shareholder equity of just \$1.44 billion and trailing 12-month EBITDA of negative \$300 million, it's obvious the company is all but tapped out. Lending it money at this point probably isn't going to end

well, unless it can start earning money from CSeries deliveries. Essentially, it's a race to deliver planes before the cash runs out.

### **The case for survival**

While I'll be the first to admit the future for Bombardier doesn't look good, there's still a good chance the company could survive.

Firstly, it still has a couple of levers to pull on the raising capital side. While the CSeries division gets all the attention, there's still a solidly profitable transportation division churning out subway cars and locomotives. Management plans to spin out approximately 20% of that division to the market in the fall, listing it in Germany. Although it's still up in the air how much it'll get for the stake, I think US\$2 billion is a reasonable amount.

Also, the company can sell some of its other businesses. It still has a robust business jet subsidiary, and there's the potential to sell its specialty aircraft division. It owns all sorts of assets that might be interesting to the right buyer.

There's also the possibility the Quebec provincial government could come in and become the lender of last resort. It would be popular politically to save the company from bankruptcy, and politicians from the province seem open to it.

But what the company really needs is to start delivering CSeries planes. Customers are frustrated with the delays, which is causing many who would normally be ordering the planes to pause. They want to see the planes in action before committing.

Until Bombardier can start actually delivering planes, it's hard to see what catalyst will send shares higher. But that doesn't mean bankruptcy is imminent. I think it survives long enough to see CSeries deliveries begin. As long as it doesn't have any major additional missteps, there's potential for a recovery. Investors just have to ask themselves if the risk is worth the possible reward.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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