



Why the Federal Election Could Be Very Good News for Bombardier Inc.

Description

Generally, investors don't really like elections.

That's because the market hates change. Anything that throws the collective expectations of investors askew is usually going to be met with the stock selling off.

Take **TransAlta Corporation** and its fleet of coal-fired power plants in Alberta as an example. Even though the newly elected NDP provincial government hasn't done as much as hint towards changes in regulations that would force the company to shutter some of its plants before expected, shares are still down some 30% since the party got elected. Investors are reacting to the speculation that the NDP might change the rules on the power giant.

But sometimes government involvement is good for shareholders. For every loser of government policy, there's often an equal number of winners. Having the government as a customer can be good too, especially when elected officials announce a big increase in spending. And in certain extenuating circumstances, the government will even give actual assistance to a company about to go under. Investors might remember such bailouts in 2008-09, but those weren't the only ones. They've been somewhat common over the years.

This history combined with Canada's upcoming federal election means there's a very high chance that **Bombardier Inc.** ([TSX:BBD.B](#)) can avoid bankruptcy. That's good news for investors looking to speculate on the stock right now, which is at just over \$1 per share.

The situation

There are two levels of government that could help out Bombardier. Either the federal government or the province of Quebec could end up getting involved.

Quebec is the obvious choice. Back in February when talk first escalated about the company's chances of bankruptcy, economy minister Jacques Daoust was quick to point out the province would be willing to step in. Daoust told the *Journal de Montreal*, "We have the money available to finance Bombardier's clients. If Bombardier needs this money for liquidity, we're able to work together."

Quebec's aerospace industry supplies a lot of good jobs in the province."

If Quebec doesn't step up, chances are a newly elected Canadian government might, especially if the NDP gets huge support in Quebec again. It looks like the NDP could win a minority government, or could team up with the Liberals to form a coalition majority. If those parties are in charge, they'll likely be eager to win favour in La Belle Province. What better way to do so than to support one of the province's largest employers?

What it means for shareholders

Any deal with Bombardier would likely come with many strings attached. As the expression goes, the devil is in the details.

When the auto industry got bailed out in 2008, it all but wiped out equity holders. They were left with a tiny fraction of ownership in the new entities with the rest going to bondholders. It was a lot like a normal bankruptcy in many ways, except the government ended up holding significant chunks of stock.

But Bombardier's situation is a little different. It has a huge backlog of CSeries regional jets that are slated to begin delivery to customers in 2016. It's very possible that it just needs time, rather than a huge amount of capital.

Say a \$500 million loan would be enough to keep the company afloat until it starts getting paid from CSeries orders. Once payments start flowing in and customers see the planes in action, orders start to pick up. In a few years when the balance sheet is in better shape, the loan could then be paid back.

It looks to be a politically popular move to bail out Bombardier, and it seems likely that such a move will happen in the next few months as the company's balance sheet continues to deteriorate. The only issue is what effect the bailout will have on shareholders. But potentially, if either the Quebec provincial government or the feds do float Bombardier a loan, it could be very good news for folks holding the stock.

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Author

nelsonpsmith

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