



Is More Turbulence on the Way for Bombardier Inc.?

Description

Shares of **Bombardier Inc.** ([TSX:BBD.B](#)) are down 67% over the past year and currently trade at levels not seen for more than two decades.

The sell-off has been a nightmare for long-term investors who have desperately held on with the hope of finally seeing a rebound. At the moment, it doesn't look like clear skies are on the horizon.

CSeries concerns

Most of the company's troubles involve the CSeries jet program. The project is more than two years behind schedule and at least \$2 billion over budget.

The repeated delays have cooled interest in the new jets and Bombardier is still 57 firm orders short of its initial sales target of 300 planes. In fact, a new order hasn't been signed for nearly a year, and one report suggests that as many as 100 of the existing orders are at risk of never being completed.

In the latest update, Bombardier said it is on track to hit the scheduled delivery of the first planes in the front half of 2016. The market remains skeptical.

Bombardier's other aerospace projects are also in trouble. Earlier this year the company shut down its Learjet 85 program and recently announced a two-year delay in the Global 7000 business jet.

The business jet division has traditionally been Bombardier's strongest and most profitable division.

That hasn't gone unnoticed, and **Mitsubishi Aircraft Corp.** now plans to enter the market with a new business jet designed to compete directly with Bombardier.

Balance sheet trouble

The whole situation has put the company's balance sheet in a precarious position.

Earlier this year, the company raised \$1 billion by selling new stock at \$2.21 per share. The market also gobbled up US\$2.25 billion in new debt. Investors on both transactions are kicking themselves

right now because the stock has dropped nearly 50%, and the 7.5% 2025 bonds have taken a heavy beating.

Racing against the clock

As of the end of June, Bombardier had \$3.1 billion in cash. That sounds like a lot of money, but the company is burning through about \$1.5 billion every six months.

At that rate, things are going to be very tight again sometime next year.

Management knows this and is planning to sell part of the transport division in the coming months. Analysts think the IPO could bring in US\$1-1.5 billion. That would help but it isn't likely to be enough, especially if the company misses its latest delivery target for the initial planes.

Investors beware

Assuming the company will have to raise capital again, existing investors are going to take it on the chin. The stock currently trades for less than \$1.20 per share, so a new issue will be extremely dilutive and the company will have to offer a big discount to bring bargain hunters to the table.

As for the bond market, the company might have trouble finding buyers for new notes given the fact that the existing US\$8.9 billion in long-term debt has already been heavily downgraded. Even if the market is willing to buy new bonds, the rate Bombardier will have to pay could be too much for the company to handle.

Is there any hope?

New orders for the CSeries, strong demand for the transport IPO, and an early delivery of the CSeries in 2016 could quickly reverse the company's fortunes and send the stock rocketing higher.

Unfortunately, there is little reason to believe these things will happen.

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