



## Could Bombardier Inc. Fetch \$8 billion for its Rail Unit?

### Description

According to documents seen by *Reuters*, **Bombardier Inc.** ([TSX:BBD.B](#)) rejected a Chinese offer to buy a majority stake in its rail business. The offer came from state-owned Beijing Infrastructure Investment Co (BII), and would have valued Bombardier Transportation (BT) at US\$7-8 billion.

How should this news affect our view of Bombardier?

### A big number

Bombardier is planning to IPO a minority stake in BT later this year, and analysts are expecting a valuation in the US\$5 billion range. This makes the BII offer look especially lucrative.

In fact, if Bombardier had sold BT for US\$8 billion, it would have had enough cash to pay off its entire debt load, with US\$2 billion left over. To put this in perspective, Bombardier's entire market value was just US\$2 billion as markets opened Wednesday. Clearly, investors were not expecting Bombardier to fetch close to US\$8 billion for BT.

Thus at first glance, it seems like Bombardier was doing its shareholders a major disservice by rejecting the offer. So, what does this mean for the company's future?

### Still a positive

Bombardier rejected the offer because it doesn't want to sell a majority stake in BT. But the company is bleeding cash and may eventually have to sell the entire unit.

In the meantime, Bombardier is hoping to set a baseline valuation for BT through the IPO, and says it may be open to further transactions down the road. This valuation could easily get a boost from BII's offer.

### Does this mean you should buy Bombardier today?

Without question, there is a lot of upside in Bombardier's shares. But there are still a bunch of big risks.

To start, the CSeries is struggling to win any new orders and clearly doesn't have any momentum right now. Even many of its existing orders are on thin ice. And if that wasn't enough, the program is sucking up cash. If there are any more delays, Bombardier could be in real trouble.

The business jet market is also struggling, mainly due to weakness from the Chinese market. Of course, the news could easily get a lot worse.

Furthermore, Bombardier is still a company with a mountainous debt load. Generally speaking, it's usually a good idea to avoid these companies when investing, especially if you don't like big risks.

But this doesn't mean you should avoid Bombardier shares forever. Many investors have sworn off the company for good, meaning the share price may not respond enough if the company starts executing. If Bombardier reaches that point, there should be plenty of upside left. So, this is something worth keeping an eye on.

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1. Editor's Choice

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