



## Bombardier Inc.: Why Is the Rally Losing Altitude?

### Description

It was nice while it lasted.

**Bombardier Inc.** ([TSX:BBD.B](#)) showed the market it still had a bit of fight left when it nearly doubled off its August low to trade near \$2 per share.

The rally occurred on the back of a report claiming that a Chinese state-owned company had offered to buy Bombardier's transport division for as much as US\$8 billion. That scared the snot out of the short sellers, who quickly did the math and realized the market had previously put a much lower value on the rail group.

Bombardier is planning to sell off part of the transport division in a German IPO sometime this fall. If the unit really is worth US\$8 billion, Bombardier would be able to raise a much-needed US\$2 billion in the spin off and still control 75% of its prized transport operations.

Sensing an opportunity to boost investor morale, Bombardier also reconfirmed it is on track to put its beleaguered CSeries planes into service in the first half of 2016.

For about two weeks, it seemed like Bombardier was finally headed for clear skies.

Unfortunately, reality has kicked in and the stock is once again on the slide.

### Nothing has changed

The company is still in big trouble, and that's why the shares are falling again.

The CSeries is still not certified and analysts are skeptical that the company will meet the current delivery schedule. The concern is reasonable given the fact that the program is more than two years late and \$2 billion over budget.

Bombardier hasn't received a new CSeries order for the past 12 months, and one report suggests that as many as 100 of the 243 jets that have been pre-ordered might never be delivered.

In addition, low fuel prices are wiping out the CSeries's competitive advantage, and airlines are simply buying or leasing old gas guzzlers because they are cheaper. So, you can understand why shareholders are getting nervous again.

Bombardier got another kick in the head this week when **Boeing** announced it has secured a major order in China for 300 planes and will set up an assembly plant in the country.

Putting the sales struggles aside, Bombardier still has to figure out how it is going to stay solvent if it doesn't start delivering planes in the first part of next year.

The company had just over US\$3 billion in the bank at the end of June, but it is burning through about US\$1.5 billion every six months.

### **Hope for another liftoff**

If Bombardier can get a good price for part of the rail division and actually deliver a couple of planes on time, or even early, investors could actually see the shares rally again—and possibly much higher than \$2.

But that would mean something positive would actually have to happen instead of just rumours that something positive might happen.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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