



Bombardier Inc.: Is its Relationship With Quebec a Help or Hindrance?

Description

There's no denying that **Bombardier Inc.** ([TSX:BBD.B](#)) has a special relationship with the province of Quebec.

Any doubt about the strength of this relationship was eliminated on Monday, when Quebec premier Philippe Couillard said that Bombardier is a "huge asset," and that the province would provide support if the company ran into trouble. Similar comments were made earlier this year by economy minister Jacques Daoust.

Bombardier certainly cherishes this close relationship, but does it really help the company?

A long history

Bombardier's relationship with the Quebec government goes back a long time, and it appears to be as strong as ever.

For example, Quebec (along with the Government of Canada) has long provided funding for any company interested in buying a Bombardier regional jet. This practice has strained Canada's relationship with Brazil, home of Bombardier rival Embraer. Yet the province hasn't stopped, announcing \$1 billion in financing for CSeries customers two years ago.

Quebec has also lent a helping hand to Bombardier Transportation. Most notably, Bombardier won a \$1.2 billion contract to replace 336 metro cars in Montreal, without even having to compete with foreign rivals.

More recently, the province provided funding for Laurent Beaudoin (Bombardier's ex-chairman) to build a cement plant. It seems the close relationship knows no bounds.

How much does it help Bombardier?

This kind of situation is certainly not ideal for taxpayers. But it could be damaging to Bombardier as well.

Let's start with an obvious reason: other governments have not been standing still as Bombardier gets favourable treatment in Canada. They have been working to shut Bombardier out of international markets as well.

Furthermore, Quebec isn't exactly a low-cost jurisdiction. Back in 2012, striking workers rejected a deal that would have seen their wages rise 12.5% and benefits rise 18%. Yet Bombardier continues to employ thousands of people in the province, while competitors have routinely shifted work to lower-cost regions. The province of Quebec certainly plays a role in that decision.

If that wasn't enough, Quebec provided over \$100 million in loans to finance the CSeries, and likely pushed the company into green-lighting the project.

Does this mean we shouldn't buy the shares?

Bombardier is burning cash at an alarming rate and needs to raise more money. One possibility would be to sell its rail business. But Chairman Pierre Beaudoin has assured Mr. Daoust that there would be no such sale. Mr. Daoust responded in kind: "I have no reason to doubt Pierre Beaudoin when he says there will be no sale. This is the good news for Quebec."

Mr. Daoust continued by saying "I know Pierre Beaudoin for a long time and I know (his father) Laurent Beaudoin for even longer. I am sure that they will work in the best interests of Quebec."

This may be good for Quebec, but it's terrible news for Bombardier's shareholders. So for now, at least, this is a story you shouldn't want to be a part of.

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