



3 Ways Bombardier, Inc. Can Avoid Running Out of Cash by Next Year

Description

In a recent research report, Scotia Capital analyst Turan Quettawala said that **Bombardier, Inc.** ([TSX:BBD.B](#)) could run out of cash by the middle of next year. It's easy to see how this could happen. Even after the CS100 receives certification, the further development of CS300 will suck up a lot of cash, and neither plane has won any firm orders in over a year.

But this projection assumes that Bombardier's management doesn't act, and in actual fact management has lots of options. We look at the top three below.

1. The train business

Bombardier is planning to raise some money from Bombardier Transportation (BT) through an IPO later this year. Mr. Quettawala sees this option as insufficient, and I would have to agree.

But Bombardier could raise a lot more cash by selling the whole thing. Analysts have typically valued BT at US\$5 billion, but the unit would likely fetch a lot more if sold to another company. According to *Reuters*, a Chinese state-owned company was willing to pay up to US\$8 billion for BT.

That would be enough money to sustain Bombardier for years. Alternatively, it would allow the company to eliminate all of its debt.

A major sticking point would be the government of Québec, which has a very tight relationship with Bombardier and its founding family. A sale of BT could mean lost jobs in the province, so the process would be very messy. But it's still likely Bombardier's best option.

2. The CSeries

For months, I have advocated that Bombardier should sell the CSeries program to a company like **Airbus** or **Boeing**. Doing so would free up some much-needed cash and allow Bombardier to focus more on the business jet market.

On Tuesday, *Reuters* reported that Bombardier had indeed tried to sell a majority stake in the CSeries

to Airbus. And Bombardier's stock price took off as a result. So, other investors seem to agree this would be a great way to raise cash.

Those talks have since broken off, and Bombardier's share price is down as a result. But at least we know the company is willing to explore this option, and that's a positive.

3. Québec

According to yet another *Reuters* report, Bombardier has held discussions with the Caisse de dépôt et placement du Québec about a cash infusion. Such an investment would likely come in the form of equity.

This is easily the worst option for all sides. Bombardier's shareholders would be significantly diluted. The founding family would probably have to give up control. And Québec already owns enough of Bombardier.

That being the case, if management has too much pride to sell any of its business units, then this is really the only option. One way or another, management will need to do something, and we'll have to wait and see what happens. Stay tuned.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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