Bombardier, Inc: Is the Situation Really That Bad?

Description

Armchair executives continue to weigh in on the **Bombardier, Inc.** (TSX:BBD.B) saga, with endless theories on how to get the battered old beast off the ground and soaring back its former heights.

Unfortunately for the company's poor shareholders, the only result from all the recent hoopla seems to be a nasty case of whiplash.

Wild price swings

To say Bombardier's stock is volatile is an understatement, with daily moves of 10-15% now becoming the norm.

Every time some keen reporter gets an anonymous tip that something big is in the works, the stock takes off. Then the air clears, and the end result is the same—nothing has changed.

Quick recap

In early September the stock shot through the roof on a *Reuters* report that Bombardier had turned down an offer from a state-owned Chinese company to buy all or part of the transport division. The potential deal would have valued the rail unit as high as US$8 billion, significantly higher than most analysts thought it was worth.

The company is planning to sell part of the transport group by the end of this year via an IPO, and that kind of valuation would really help. Until the IPO actually happens though, investors really have no idea how much Bombardier can raise, or what price the market is actually willing to pay.

Last week, *Reuters* stoked the fire again by reporting that management was in talks with the Caisse de dépôt et placement du Québec for a cash infusion. Of course, no details whatsoever were disclosed, other than the fact that the Caisse is already a major shareholder and that it manages Québec's public pension plans.

Québec's civil servants might be getting a bit nervous if the rumour is true because the return on their investment so far doesn't look all that great.

Desperate measures

If that weren't enough to keep everyone excited, rumours of talks with **Airbus** sent the stock soaring late in the session on October 6, only to see it come crashing down again the next day after *Reuters* revealed that Bombardier had failed to sell a majority of the beleaguered CSeries project to its arch rival.

This is probably the most troubling news of all.

If Bombardier is so desperate for cash that it has to approach its main competitor and offer to hand over the family jewels, things aren't looking good.

The rebuff by Airbus makes sense. Why would the French giant help out a main competitor when it looks like the company could go bust sometime in the next 18 months? If Bombardier doesn't get the first CSeries planes delivered in the front half of next year, it might have to be bailed out by the Québec government.

At that point, Airbus could walk in and do a CSeries deal for pennies on the dollar to ensure Québec-based jobs aren't wiped out.

Shareholders, meanwhile, continue to pay the price. Management is conveying a sense of desperation to the market, and that isn't going to make it easy to raise funds at a reasonable cost.

The end result

So far, all the talk of deals is just hot air, and while it makes great fodder for business writers, it leads investors to the same conclusion—nothing has changed!

The only certainty is that Bombardier is running out of money and nobody is banging down the door to buy the new CSeries planes. In fact, the company hasn't received a new order for more than year.

Bombardier might survive, and I hope it does, but investors should avoid the stock right now.

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1. TSX:BBD.B (Bombardier)

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aswalker