



Why China Would Pay \$4+ Per Share for Bombardier, Inc.

Description

Whenever a company consistently underperforms, you'll inevitably hear calls for it to be sold.

And we all know that **Bombardier Inc.** ([TSX:BBD.B](#)) has underperformed for years. But selling the company would be very tricky. There is no other firm in the world that makes both planes and trains, so if any one company were to buy Bombardier, it would have to enter a completely new line of business. Such an outcome seems far-fetched.

For that reason, many are saying that only portions of Bombardier should be sold off. But there's one entity that would surely be willing to buy the whole company and pay a very high price, too: the Chinese government. In fact, China should be willing to pay at least \$4 per share for Bombardier, if not a lot more.

We take a closer look below.

Aerospace: a big asset

Aerospace is a key pillar in the growth of China's economy. In the country's most recent five-year plan, the government even cited aerospace as one of its priority industries.

Unfortunately for the country, growing the aerospace industry isn't that easy. To illustrate one of the many difficulties, it was reported earlier this week that the country's first domestically designed passenger jet will be delivered without U.S. safety certification. This makes the jet ineligible to fly on many major airlines around the world.

Meanwhile, Chinese airlines continue to buy aircrafts from Western companies like **Boeing** and Airbus. Just last month Boeing announced an order for 300 jets to three Chinese firms. Certainly, this is a concern for the government.

So, China is playing a game of catch-up in the aerospace world. But this can be an expensive proposition. We all know the troubles that Bombardier has gone through to develop the CSeries, but Airbus had its own problems with the A380, and Boeing had even more difficulty with the 787.

Thus, the Chinese government would love to own an asset such as the CSeries and should be willing to pay *at least* the US\$5 billion that Bombardier has spent on the program thus far.

What about the rail business?

There have already been reports that a Chinese state-owned company was willing to pay up to US\$8 billion for Bombardier Transportation (BT). This was well ahead of what BT would get on the open market (most analysts peg this number at US\$5 billion). There are a couple of reasons for the disparity.

First of all, buying Bombardier would allow the Chinese to get valuable access to Western markets. Secondly, BT has been mismanaged for years, so it makes sense that it would be more valuable in the hands of someone else.

Will this ever happen?

This looks like an enticing scenario for Bombardier shareholders. China would likely be willing to pay at least US\$13 billion for Bombardier, which amounts to US\$7 billion after net debt, or well over \$4 per share.

But this will never happen, because the governments of Quebec and Canada would strongly oppose it. So for now, this looks like a pipe dream. But it does underscore just how much value is trapped inside the company. Whether or not it ever gets released is another question.

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