



## Bombardier, Inc.: Is it Too Big to Fail or Too Small to Matter?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) would like to forget about 2015 and possibly 2014 for that matter. The company has seen its share price plummet to near penny-stock status and seen huge amounts of capital absorbed by cost overruns on multiple projects that are months, and in some cases years, behind schedule.

For investors who have for the most part been patient with the company, confidence has sunk to new lows as Bombardier struck a deal with the province of Quebec.

### Quebec joins the party...at a price

Bombardier's partnership with Quebec failed to alleviate investors' concerns about the direction (or lack thereof) of the company's CSeries program. As a result, shares toppled nearly 20% after the US\$1 billion partnership with the province was announced.

As part of the deal, Quebec injects much-needed cash into the business—specifically, the CSeries program. Quebec will get a 49.5% stake in the CSeries program and the option to buy up to 200 million class B shares at a price of \$2.21, potentially giving the province a 9% stake.

Bombardier in turn will commit to keeping operations for the CSeries in Quebec for at least 20 years.

While there is something to be said for bailing the company out with taxpayer funds, for Quebec, the risks of not acting will outweigh the risks in helping the company. The loss of potentially thousands of high-paying jobs would wreak havoc on the economy for years, and if this capital injection will launch the CSeries (which is seeming increasingly likely), both the company and government will stand to make a handsome profit.

### What about the Feds?

On the heels of the Liberal victory, the new federal government hasn't decided on an outstanding request for assistance, opting to make a decision on whether or not to help out Bombardier after the party formally takes over. However, the cost of doing nothing will likely outweigh the cost of helping the

beleaguered company.

## Results are in... and are worse than expected

As if Bombardier didn't need any more bad news, the company posted quarterly results for the period ending September 30 this week. Nobody really expected Bombardier to have a great quarter, but similarly, nobody really expected the results to be as bad as they really were.

The company posted a US\$4.9 billion loss for the quarter. This includes a \$3.2 billion write-down on the CSeries (which was expected in one form or another) and another \$1.2 billion charge attributed to plans to shelve the Learjet 85 business jet.

To put the loss into perspective, the company posted a loss for the quarter that is roughly double the market cap. Investor confidence, which was already rattled by the CSeries program, is likely now at new lows, and from a company perspective, Bombardier may need to start selling assets to shore up finances.

There is a light at the end of the tunnel, however, and that is the C series program itself. All signs are pointing to certification being granted before the end of the year and existing orders to start being fulfilled. This will bring in much-needed revenue for the company, and the current fiscal nightmare might finally come to an end.

Bombardier is an extremely risky investment at this juncture. In my opinion, the company is not a good candidate to invest in, but those investors already committed to shares in the company may want to hold off selling and have a wait-and-see attitude.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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