



Will Bombardier, Inc. Get the Next Bailout it Desperately Needs?

Description

Last week, Quebec said it would invest [\\$1.3 billion](#) in **Bombardier, Inc.'s** ([TSX:BBD.B](#)) CSeries jet line in return for a near 50% stake in the project. This was a desperately needed lifeline for a company facing potential bankruptcy. Its stock has lost 60% of its value in the past 12 months.

It turns out, the company may need another bailout in as little as 12-18 months. Soon after the bailout announcement, the firm disclosed that it would only cover half of the CSeries's costs that are expected over the next five years. Quebec now wants the rest of the Canadian government to pitch in. Prime Minister Justin Trudeau said Thursday that he was not shutting the door on the idea of national government aid for Bombardier.

How much will the company need, and how will this impact shareholders?

Bailouts don't change a bad business

While Bombardier is trying to put on a brave face for its CSeries jet line, which is years overdue and billions over budget, things don't look especially promising. Even if bailouts provide the liquidity to get the project online, it won't change the fact that the project will be a money loser.

According to the U.S. aviation consultancy firm Leeham Co., Bombardier will lose \$32 million on each of the first 50 CSeries aircraft it builds, guaranteeing the project as a cash drain until at least 2018. To be able to afford ramping up production, the company would need to spend approximately \$1.6 billion in total. Bombardier simply does not have this kind of capital. Currently, the firm has \$9 billion in debt and only \$3 billion in cash. Last quarter, it posted a \$4.9 billion loss.

Still, all of this assumes that Bombardier will even find ample market demand for its new jets. Sales have been stuck at 243 orders, short of the company's 300 order target. Meanwhile, more than half of these orders face a growing risk of customer-driven delays or cancellations.

For example Ilyushin Finance Co., a Russian company, is re-evaluating its order because it's now unable to secure financing due to economic sanctions. At this summer's Paris Air Show, a major source of customer orders for most jet manufacturers, Bombardier left without a single CSeries order.

Things get worse

Compounding issues, **Moody's Corporation** downgraded the company's credit rating this summer. Already lacking a full ability to tap the capital markets, this could be a death blow to any further bailouts from the market. What's left will be government aid or selling off assets.

In September, its stock jumped the highest it has been in over 25 years amid rumours that it was selling its rail business unit for \$8 billion. Surprisingly, Bombardier ended up rejecting the proposal by Beijing Infrastructure Investment, saying that the segment was not up for sale. This was a bold stance given the company's funding needs and a bid price that was higher than what most analysts expected.

What's next?

Even with optimistic assumptions, Bombardier management believes that it requires \$2 billion in additional financing over the next five years to complete the CSeries project. With its stock below \$2 and a daunting balance sheet, it's unlikely that the market will come to the company's aid. That leaves two options: selling assets or receiving further government funds. Right now, the most likely option is the latter. Predicting its probability, however, is incredible tough.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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