



## Bombardier, Inc. Sells 30% of its Train Unit: Is it Time to Buy?

### Description

So much for the US\$8 billion valuation the market had hoped **Bombardier, Inc.** ([TSX:BBD.B](#)) could get for its rail transport division.

Quebec's provincial pension fund, Caisse du Depot & Placement du Quebec (CDPQ) has agreed to give Bombardier US\$1.5 billion for a 30% stake in a new holding company being set up that will contain the asset of the Bombardier Transport division.

The much-needed funds come on the heels of a \$1 billion lifeline handed to Bombardier by the Quebec government, giving the beleaguered Canadian icon the cash it needs to complete its CSeries jet program.

Investors should have mixed feelings about the deal. On the one hand, a cash crisis has now been averted and Bombardier can focus all of its efforts on getting the CSeries certified and into production.

On the other hand, the valuation of Bombardier Transport is now pegged much lower than a *Reuters* report suggested when the news agency ran a story saying a state-owned Chinese company had considered buying the rail division for as much as US\$8 billion.

Is this a good deal?

Keeping jobs in Quebec is the primary focus of the recent moves by the Quebec government and the pension fund. The company employs about 18,000 people in Quebec at an average salary that is double the mean for the province.

CDPQ will acquire convertible shares in the new company, so the investment could turn out to be a winner for Quebec's public servants if Bombardier can manage to survive.

The pension fund has the right to force an IPO of the new company, BT Holdco, after five years. A sale of the stock could also be triggered if ownership of Bombardier changes.

The US\$5 billion valuation comes in at the low end of analyst expectations, but the fact that the money

came from CDPQ will probably be viewed positively.

### **Should you buy Bombardier?**

The cash crunch has now been addressed, but the problems that created the crisis are still there.

Bombardier hasn't sold a new CSeries jet in more than a year, and one report suggests as many as 100 of the 243 orders for the planes could be delayed or never delivered.

The CSeries was pitched as a quieter and more fuel-efficient option to planes that are currently in the market. When WTI oil prices sat above \$100 per barrel, fuel efficiency was a big selling point. Now jet-fuel costs have dropped significantly and airlines around the world are choosing to buy or lease older models instead of paying up for the new Bombardier jets.

In a recent statement, CEO Alain Bellemare said the troubled CSeries jet program wouldn't be profitable until at least 2020.

The train division that CDPQ just bought into has its own issues to work out. The group is struggling to meet delivery targets on key contracts, and Chinese competitors are aggressively targeting the North American rail market.

If you have a contrarian investing style and think Bombardier is capable of turning things around, you might want to start a small position in the stock.

I would stay on the sidelines until the first CSeries jets get delivered.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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