



Is it Time to Buy Bombardier, Inc. on the Quebec Pension Fund Rescue?

Description

First there was the partnership with the Quebec government whereby the government would own 49.5% of the CSeries assets in exchange for US\$1 billion.

Now the Quebec Pension Fund has agreed to give **Bombardier, Inc.** ([TSX:BBD.B](#)) US\$1.5 billion in exchange for nearly 33% of the train and transition group of the company. The pension fund and Bombardier are setting up a new holding company in Germany, which will hold the railroad assets. With these two new deals, Bombardier now has US\$6.5 billion in the bank.

But the question on everyone's mind is, What next?

In a conference call with analysts and reporters, Alain Bellemare, CEO of Bombardier, said that the money is enough for the company to introduce its CSeries line of aircraft and create an entirely new line of business jets. All told, this is pretty good news for the company.

There were considerable liquidity concerns for Bombardier, and many were suggesting that it might go bankrupt. Receiving billions of dollars should help it survive. The unfortunate part of all this is that it has now given up 49.5% of its CSeries assets to the Quebec government and nearly 33% of its railroad assets to the Quebec Pension Fund. The railroad is its highest-performing division and has \$30 billion in orders. Other than China, the Bombardier train division is the largest train provider in the world.

The problem is that it now has to give up 33% of its profits to the Quebec Pension Fund, which minimizes Bombardier's total profits. Further, when the time comes that it wants to buy that portion back from the Quebec Pension Fund, it will also need to take on a considerable amount of debt, which will further burden the company.

Where is the CSeries?

All of this still leaves me asking, Where is the CSeries? And why is no one buying it? Because the company has had so many delays getting the plane to market, companies have been cancelling their orders. For example, **Air Canada** had to put its order on hold because it wasn't quite sure if it wanted to acquire the planes.

Losing clients before the plane is even in the air is definitely concerning; Bombardier should be frantic to make deals. While the company is insistent that it will have commercial flights of the CSeries by the first half of 2016, Bombardier has been late on everything else, so potential clients might be watching and waiting to see if the plane does go commercial.

Should you buy?

The reality is simple. Bombardier has given up a considerable amount of its assets in exchange for cash, which is fine if the company can turn things around. For investors, this might be a decent time to get in because the concern of bankruptcy is now behind it because of all the extra cash.

My advice is to play it slow. Start a small position now and then add to it slowly as the stock rises. While you will be effectively averaging up your total cost per share, you'll be accruing a position in a safer fashion. If the CSeries does launch and it starts to sell, this stock should pop, which will finally reward long-time investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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