



## Does Financial Support From Quebec Make Bombardier, Inc. a Safer Bet?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) now has the cash it needs to complete its CSeries program, but the market still isn't impressed.

#### Cash crunch averted

Bombardier pulled in US\$2.5 billion in recent weeks from the Quebec government and the province's pension fund, Caisse du Depot & Placement du Quebec (CDPQ).

The province gave Bombardier a US\$1 billion bailout in exchange for a 49.5% stake in the troubled CSeries program, while the CDPQ is providing US\$1.5 billion for a 30% position in a new company being set up to hold Bombardier's transport division.

The funds should be sufficient to carry Bombardier through the final steps of certifying the CSeries planes and getting the first jets delivered to customers in 2016.

The stock has been under severe pressure this year as analysts worry about the rate at which Bombardier is burning through cash. When the CDPQ announcement came out last week the shares initially popped, but the stock quickly came crashing down again and now trades lower than it did before the second funding announcement.

#### Why is the market still so negative about the stock?

Bombardier might have the cash it needs to complete the CSeries program, but that doesn't fix the larger problem—no customers.

Bombardier hasn't received a new CSeries order in more than a year. The company says potential customers are just waiting for the final steps of the project to be completed, but some pundits suggest there could be bigger issues.

The CSeries is pitched as a quieter and more fuel-efficient plane than any competing aircraft in the market. That was a strong selling point when WTI oil traded above \$100 per barrel and jet fuel was

much more expensive.

The plunge in fuel costs has taken a lot of the efficiency advantage away and airlines are less motivated to switch from the less expensive older models.

Bombardier has orders for 243 CSeries jets. One analyst report suggests as many as 100 of the planes could be delayed or never delivered due to a variety of issues, including difficult financial conditions faced by some customers.

### **Rail concerns**

The transport division is supposed to be Bombardier's flagship operation, and speculation had been floating around that the rail segment could fetch as much as US\$8 billion. The CDPQ investment put those hopes to rest as its 30% stake values the rail group at US\$5 billion.

The train division has its own difficulties. The unit is struggling to meet delivery commitments on a major contract, and competition from China is threatening to steal more deals in Bombardier's core U.S. market.

### **Should you buy?**

The cash infusion solves the liquidity crisis, for now. If Bombardier can get the first CSeries jets delivered on time in the first part of 2016 and pick up a few new orders, the stock could easily double off its current price of \$1.24 per share.

Having said that, new investors should still be careful. The CSeries program isn't expected to turn a profit until 2020, and that's assuming everything goes according to plan.

Given the track record to date, I would stay on the sidelines.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:BBD.B (Bombardier)

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