# Bombardier, Inc.: Why Quebec's Cash Is Bad for Shareholders

## Description

Back in mid-October, I argued that there could be a golden opportunity to buy **Bombardier Inc.** (TSX:BBD.B) shares in November. As my reasoning went, the company was likely to report dismal third-quarter results at the end of October. This would force CEO Alain Bellemare to raise more cash from its various business units, thus unlocking tremendous value for the company.



As it turns out, I was right about step one. Bombardier did release horrendous figures for the third quarter, and it was clear the company needed more capital. But instead of getting that money from other companies, Bombardier has received cash from Quebec. Consequently, the opportunity to profit from this stock is likely gone (even though the stock has fallen in recent weeks). We take a closer look below.

**Why a foreign investment would have been ideal**

Back in early September, reports surfaced that a Chinese state-owned company had offered to buy a majority stake in Bombardier's train-making business. And then a month later, it was revealed that Bombardier had negotiated with Airbus about selling a majority stake in the CSeries. In each case, Bombardier's share price surged.

There's a simple reason for this: Bombardier likely would have gotten a lot of cash in both cases. To illustrate, the Chinese company was reportedly willing to pay up to US$8 billion for the train-making business. And Airbus probably would have paid top-dollar for the CSeries, since it has had its own difficulties developing planes.

**Why shareholders lose because of Quebec's cash**

As we all know by now, Bombardier has turned to Quebec for cash instead. The provincial government invested US$1 billion for a 50% stake in the CSeries program, and the province's largest pension fund invested US$1.5 billion for a 30% stake in the rail business.

The new deals will allow Bombardier to enter 2016 with US$6.5 billion of liquidity. So shareholders can be reasonably confident of the company's financial stability (at least for the next couple of years).

Yet shareholders are unimpressed. Bombardier probably received far less cash than it would have gotten from Airbus or from China. And with Bombardier retaining control of all its operations, there's a good chance these businesses will continue to underperform. It's no surprise that the shares have sunk by so much.

**Why did Bombardier go this route?**

The answer is very simple: Airbus and China were looking to buy majority stakes, and Bombardier didn't want to give up majority control. Such an outcome likely would have led to lost jobs in Quebec and would have been an embarrassment for the Bombardier/Beaudoin family.

It is worth noting that Chairman Pierre Beaudoin has a very close relationship with the government of Quebec. So you shouldn't be surprised if Quebec's interests take priority over the well-being of Bombardier's shareholders.

By now it should be clear that Bombardier's shareholders will never get fair treatment. Thus I would recommend staying far away from this stock, no matter how cheap it looks.



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1. TSX:BBD.B (Bombardier)

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