Will the Plunging Loonie Save Bombardier, Inc.?

Description

The troubles of **Bombardier, Inc.** (TSX:BBD.B) have been well documented.

They mostly stem from the debacle that is the CSeries program. Attempts to get the new line of regional jets to market haven't worked out so well. The program has been plagued by delays, cost overruns, and mechanical issues, which included having to shut down flight testing for months to examine engine issues.

After two delays in the last two years, it looks like customers will finally start taking deliveries of their jets sometime in mid to late 2016. This is very good news for Bombardier, simply because the company can't afford to wait much longer, since it's burning cash at a rapid pace.

At the beginning of 2015, Bombardier had US$3 billion in cash. At the end of September it had US$2.9 billion in cash, despite raising more than US$2 billion in a debt and equity deal earlier in the year. At that pace, and after factoring in the cash infusion of US$1 billion from the Quebec government back in November, Bombardier looks set to run out of cash by the end of 2016.

There are a lot of things going against Bombardier right now. At least it has one thing going in its favour.

A declining dollar

The Canadian dollar continues its slide against the U.S. greenback. After trading at or even above par from 2011 to late 2013, the loonie has been a terrible performer through 2014 and 2015. It now costs $1.36 Canadian to buy one U.S. dollar, a low not seen since 2004.

The Canuck buck has moved lower for two reasons. One is Canada's continuing economic weakness. Commodities are a big part of the Canadian economy. When they're depressed, so is Canada's economy. Without the growth from oil-rich Alberta, overall Canadian economic growth is tepid at best.

The Canadian dollar is also struggling because the U.S. dollar is so strong. Investors looking for stable currencies don't have many choices these days. The Eurozone continues to look weak, Japan's economy is a mess, and Australia is just as exposed to commodities as Canada is. Emerging markets also look weak. That doesn't leave many choices for investors looking for a stable currency.

This is good news for Canada's exporters, primarily Bombardier. Sure, the company does report results in U.S. dollars, since it primarily gets paid in that currency. But most of its input costs are in Canadian dollars. It pays staff mostly in Canadian dollars. It pays taxes in Canadian dollars. And it pays preferred share dividends in Canadian dollars. Much of its debt is Canadian dollar denominated, too.

According to an analyst report back in January, a move from par to US$0.85 for the Canadian dollar would result in a US$435 million cost savings for the aerospace division. This translated into $0.19 per share back then, a number which has since been skewed because of the equity raise.

Now that the Canadian dollar has fallen even further, savings for Bombardier should approach between $0.25 and $0.30 per share. That's not insignificant for a stock trading right around $1.10.

Analysts also think a declining Canadian dollar will be good for Bombardier's margins. Analyst Benoit Poirier of Desjardins Capital Markets thinks Bombardier's Aerospace EBIT margins could rise to 7-9% by 2017, much higher than the 5.5% which is currently forecast.

Bombardier still has a lot of work to do to get past its CSeries struggles. It'll likely need to raise more cash and continue to cut costs. It'll also have to work hard to get more CSeries orders. A declining Canadian dollar will certainly help, especially when it gets past this current liquidity crisis. But for now, the big issue is getting cash. If Bombardier can survive, this decline in the Canadian dollar will really help.

CATEGORY

1. Investing

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1. TSX:BBD.B (Bombardier)

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Date
2025/07/08
Date Created
2015/12/10
Author
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