



Bombardier, Inc.: Is a Bailout From Ottawa in the Cards for 2016?

Description

This has been a year **Bombardier, Inc.** ([TSX:BBD.B](#)) shareholders would rather forget.

The year started off with plenty of promise. The company was optimistic it would start delivering CSeries planes to awaiting customers by the end of the year. But after announcing a disastrous quarter in January, the company was forced to raise cash and eliminate the dividend in an effort to stay solvent. Plus, CSeries deliveries were pushed back until mid-2016.

Analysts expressed concern, wondering if Bombardier would be able to survive even after the capital raise and claiming the company simply burned too much cash for it make it past 2015. Management obviously agreed and went out to raise even more money. They got it from two investments made by parts of Quebec's provincial government for a total of US\$2.5 billion. In exchange for the fresh capital, Quebec now owns 50% of the CSeries and 30% of Bombardier Transportation.

Those cash infusions help, but analysts are speculating that they won't be enough. In the last quarter alone, Bombardier's cash balance dipped from US\$3.6 billion to US\$2.9 billion. At that pace, the company will be out of cash in a year.

This has led to rampant speculation that an investment from Ottawa is coming next. Should investors in the beleaguered company count on help coming from the feds in 2016?

The case for a federal bailout

Not surprisingly, Bombardier's management team has been pushing the new Trudeau government for an investment. The amount the company is looking for is US\$1 billion.

The federal government has a long history of helping Bombardier. According to records at Industry Canada, Bombardier has been the recipient of more than \$1.1 billion in federal aid over the years. The first instance dates all the way back to 1966.

And to top it off, you can even argue the amount issued to the company from the feds is about double what's reported, since it acquired competitor de Havilland in 1992, which was also the recipient of more

than \$1 billion in federal aid.

Nobody really knows about Bombardier's repayment record for these loans either, since the company has been to court several times to block access to requests that might shine more light on the records.

I also think there's a much better chance of Bombardier getting a cash infusion from a Liberal government compared to a Conservative one. Justin Trudeau was elected on a pledge of more spending, and Quebec is one of the keys to every election. A bailout might be a smart move politically.

And as Bombardier's management has pointed out, Ottawa has a long history of helping the auto industry in Canada under the guise that it's protecting jobs. What's the difference between the auto industry and the airplane industry?

The case against it

The big reason against bailing out Bombardier is that these kinds of deals rarely work out.

Bombardier has been supported by governments for years, and yet it's back asking for more money. It's obvious the strategy of throwing money at the company in the hopes that it'll turn operations around hasn't worked. What makes us think it'll work this time?

There's also potential for Ottawa to invest in Bombardier and then place tariffs on certain products that compete with the company's wares as a way of protecting its investment. Just about every economist agrees that placing barriers in the way of trade is a bad idea.

Finally, there's little doubt that bailing out Bombardier won't be popular outside of Quebec. If many of Canada's smaller energy producers don't see higher oil prices in 2016, some could go bankrupt. If Ottawa gives money to Bombardier, why not give to energy companies and save jobs in Alberta? It's a slippery slope.

Ultimately, a bet on Bombardier is a bet on a federal bailout. I think such a deal will happen, but that doesn't make the stock a buy today. It's silly to invest in a company whose ultimate fate depends on government intervention.

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1. TSX:BBD.B (Bombardier)

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Date

2025/07/08

Date Created

2015/12/24

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