



Bombardier, Inc.: What to Expect in 2016

Description

Needless to say, **Bombardier, Inc.** ([TSX:BBD.B](#)) had a rough year. Will next year be any better?

We take a look below at what to expect.

A year of transition

At Bombardier's investor day in November, CEO Alain Bellemare warned that 2016 would be a painful year. Business jet demand is weak, which will impact sales of the Global 5000/6000 planes, leading to a fall in revenue and earnings. Furthermore, losses on CSeries production will drive earnings even lower.

On the plus side, Bombardier's cash usage should improve. This would mainly come from "backlog stability" in its business jet division and also from Bombardier Transportation (BT) deliveries.

The company also hopes to improve its efficiency in various ways. This includes better management of working capital and better program execution. BT will also be much more selective in its bids, rather than aggressively competing for every contract. To put it bluntly, there is no shortage of ways that Bombardier can improve its operations next year. Strong execution will be crucial.

A critical year for the CSeries

After a long wait, Bombardier expects to deliver its first CSeries jet in the second quarter. But there are more hurdles to overcome.

One is the lack of orders. Bombardier has had trouble selling the jet primarily because of falling fuel prices and intense competition. But now the company is willing to offer steeper discounts, so we could see orders pick up in the New Year.

Meanwhile, Bombardier is expecting to lose more money as it ramps up CSeries production. This is not unusual as aircraft makers typically must progress up the learning curve before producing planes profitably. So investors will be looking for signs that Bombardier is making such progress.

More capital needed

Including investments made by governments and pension funds, Bombardier has roughly US\$6.5 billion of liquidity heading into 2016. But the company is projecting negative free cash flow for both 2016 *and* 2017. Thus, it's very reasonable to expect a future cash crunch.

So it's no surprise that Quebec economy minister Jacques Daoust wants the federal government to inject another US\$1 billion into Bombardier. *Reuters* reported that the company has made the same request.

Next year we should find out if Bombardier gets this money. And if the company doesn't get it, then its future could get messy.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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Date

2025/07/21

Date Created

2015/12/30

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