Bombardier, Inc.: It's All up to Ottawa Now

Description

There are a lot of problems being thrown at **Bombardier, Inc.** (TSX:BBD.B) seemingly all at once.

The CSeries program has arguably been a disaster. The company hasn't received a firm order for a CSeries regional jet since 2014. It's not because of a lack of trying, either. It has courted many prospective customers, but has lost out to industry giants **Boeing** and Airbus.

It's easy to see why customers aren't very excited about the CSeries. Orders placed as far back as 2009 are still waiting for their planes, which should hopefully be delivered sometime in 2016.

The CSeries had a couple of main advantages over comparable planes back in early development. It had quieter engines, a lighter frame, and better fuel economy. But with the price of fuel collapsing and new aircraft from both its major competitors now offering those same perks, suddenly that competitive advantage has gone away. Bombardier is now forced to compete on price, which is never a good idea.

The newest 737 from Boeing (dubbed the 737-MAX) should be of particular concern. Most airlines already use Boeing planes, so they're familiar with them. The 737-MAX has better fuel economy and quieter engines than its predecessors, and Boeing isn't plagued with the same production problems as Bombardier.

And then there's the balance sheet. Even after getting a cash infusion from an equity and debt offering to up its cash pile to US$5.3 billion in 2015, the company has continued to bleed cash at an alarming rate. Its cash on hand was just US$2.9 billion as of September 30, its most recent quarter. The decline should slow this quarter because of investments made in the company from the Quebec government, but it's still very alarming.

Based on the 2015 pace, there's a very real danger Bombardier could run out of cash at some point in the second half of 2016. I doubt lenders will be in a big hurry to give the company more capital once that happens. Would you lend money to a company that owes US$9.1 billion and bleeds cash consistently?

A saviour

Bombardier's management has been pressuring Ottawa for months, trying to get new prime minister Justin Trudeau to agree to some sort of bailout package. It appears that deal will happen; it's only a matter of ironing out the details.

This would definitely be good news for Bombardier and could be a potential win for the feds as well. Prime Minister Trudeau can win some political points for saving thousands of jobs in a province that may prove to be a battleground in the next election. Depending on how much the company gets, it might be enough to ensure it can make it through this downturn intact.

But at the same time, it's pretty clear Bombardier needs some sort of break from its massive debt load. It paid $352 million in financing expenses for just the first nine months of 2015. Compare that to its earnings before interest and taxes in the same period of $538 million, and it's obvious some relief is needed. It just doesn't have high enough margins to pay that much in interest.

There's speculation a deal with Ottawa could be coupled with some sort of debt restructuring. Many of the current debtholders would get equity, Ottawa would lend money to a newly delevered Bombardier, and current shareholders would get shut out. It would be very similar to what happened to the auto industry in 2008-09.

This is exactly why a deal for Bombardier might be a bad deal for shareholders. And that's why the shares are a risky investment today. With shares firmly in penny-stock territory, it's obvious the market sees potential in such a disastrous event happening.

Bombardier shares are a risky investment at this point. Ottawa could save the day, but we don't know what exactly will happen. With hundreds of other Canadian stocks being beaten up, I'm finding much better opportunities. Perhaps other investors should look elsewhere as well.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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