



Bombardier, Inc.: Would More Aid Money From Quebec Be a Good Thing?

Description

On Wednesday, Quebec transport minister Jacques Daoust indicated that the province would step in with more aid for **Bombardier, Inc.** ([TSX:BBD.B](#)) if the federal government doesn't act soon: "If as of March 31, the federal government isn't present, the Government of Quebec will have a decision to make. But we've always supported Bombardier."

This sounds like good news for the company. But from a shareholder's perspective, the prospect of more aid from Quebec is actually a negative. We take a look at why below.

Tough love from the federal government

Mr. Daoust has asked the federal government to invest US\$1 billion in Bombardier, and the company itself has reportedly made the same request. And the feds are certainly taking the request seriously.

That being the case, Bombardier may be in for a rude awakening. While speaking about the company back in November, Prime Minister Justin Trudeau said "there must be a strong business case" for any investment, and that any decision cannot be made based on "emotion, politics, or symbols."

Fast forward to last week, and reports indicated that the federal government would demand governance changes as part of any aid package. To be more specific, the company would probably need to eliminate its dual-class share structure, which currently gives the founding family voting control.

We've seen this before

A collapse of the current share structure may be a negative for the founding family, but it would be a big win for shareholders. Remember, this is a company that has performed for years with the family in control, and a breakup of the structure could lead to a big shakeup.

Thus there was some real hope for shareholders, because Bombardier seemingly had nowhere else to turn for new capital. Alas, given Mr. Daoust's comments, the company may be in for more underperformance.

This situation is actually quite familiar. Last fall, Bombardier was short of cash and looked to be backed into a corner. The company even explored the sale of its CSeries program and its rail-making business. Either transaction would have been a major win for shareholders. But then the company announced a US\$1 billion investment from the Quebec government instead, and based on Bombardier's share price since then, the province's intrusion was a big negative.

Just stay away

Normally, buying undervalued stocks leads to above-average returns. But that assumes that the company is being run for the benefit of the shareholders. And this is not the case with Bombardier. So your best bet is to stay away from this stock, no matter how cheap it looks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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