



Is Bombardier, Inc. a Buy on Governance-Change Rumours?

Description

It is always difficult to take a quote or rumour seriously if the individual saying it doesn't put their name behind it.

According to reports, some officials in the federal government told reporters that if the government was going to give **Bombardier, Inc.** ([TSX:BBD.B](#)) aid, it would require changes to how the company is governed. As with many family-run public companies, there is a dual-class share structure that gives the founding family majority voting control despite the fact they only own 14% of the equity.

Dual-class share structures have always bothered me because shareholders have little say in the way the company they've invested in is managed. While the founding family might believe they know what is best, shareholders deserve an equal say if they're going to put their money into the company.

If the federal government is pushing Bombardier to break up its dual-class share structure, that could be great news for investors. The biggest reason that this would benefit shareholders is because the company could be broken up, thus providing some semblance of a ROI to investors.

Followers of Bombardier often hear about how poorly the CSeries project is going. However, Bombardier also has an incredibly strong rail unit, which is one of the reasons why the company has been able to stay operational for so long. And while the CSeries has been a perpetual flop, there's no doubt that one of the larger airplane manufacturers might want to acquire the asset.

The problem is that with a dual-class share structure, there's no way for the average investor to propose that the rail division be spun off or that other assets within the company be sold.

Should you buy Bombardier?

Quite frankly, I would continue to avoid Bombardier despite the rumours. If the federal government does mandate that the manufacturer get rid of its dual-class share structure and the company follows through, I could see positive signs for the company.

Unfortunately, I don't see that sort of a move occurring any time soon. And investors still have to worry

about the fact that the company is having a hard time closing deals. For example, Bombardier had been trying to sell CSeries jets to **United Continental Holdings Inc.**, but the company purchased 40 jets from **Boeing Inc.** instead. Now Bombardier is trying to sell to **Delta Airlines Inc.**, but my prediction is that Delta will procure jets from another manufacturer as well.

My advice when it comes to Bombardier is to buy the stock when there is actually good news. Rumours can often send a stock rising in the short term, but once traders have realized their gains, the stock tends to drop once again. Therefore, wait for the company to announce that it is getting rid of its dual-class share structure or that it is selling more planes. Until then, investors should avoid Bombardier.

CATEGORY

1. Investing

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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