



3 Reasons Why Bombardier, Inc. Shares Have Surged

Description

Being a **Bombardier, Inc.** ([TSX:BBD.B](#)) shareholder usually isn't a very pleasant experience. But if you had perfect timing, you would have made a return of more than 60% in less than three weeks, despite a steep drop on Wednesday.

So why are Bombardier's shares surging, and is this a sign of more good times to come? We take a look at three reasons why below.

1. Hope for the CSeries

The strong run in Bombardier's shares started with the announcement that **Air Canada** signed a letter of intent to purchase up to 75 CS300 aircraft. The deal would be worth about US\$3.8 billion at list prices.

Before this development, Bombardier had failed to win any orders from major North American airlines. So there is certainly some hope that the Air Canada win will give the CSeries more credibility, perhaps leading to more large orders down the line.

But let's not get carried away here. Air Canada's decision was without doubt influenced by Quebec's agreement to drop a lawsuit against the company as well as the Canadian government's promise to update some unfavourable legislation. Bombardier's rivals will certainly push that narrative while trying to discredit the CSeries, and there is a good chance they'll be successful.

2. A possible overhaul

As we all know, Bombardier's founding family still controls a majority of the company's votes, despite holding well under half of the equity thanks to a dual-class voting structure. And as the Canadian government mulls over whether to make an investment in Bombardier or not, there is a good chance the family will have to give up its control.

This would be more than symbolic. Without the family's control, Bombardier would be more vulnerable to an activist investor buying up a bunch of shares. It would also be vulnerable to a foreign takeover.

Such outcomes may not be good for Quebec's economy, but it would be great news for shareholders.

Again though, we shouldn't be overly optimistic. The Canadian government may be facing pressure to provide aid to Bombardier, but there are a lot of people opposed to any sort of bailout. So the only way for Justin Trudeau to have it both ways is to demand serious concessions from the company. For instance, he could ask for an equity stake at a price of \$0.60 per share.

In any case, he surely doesn't want to make Bombardier's stock price go up by making an investment—this would look too much like a bailout. Furthermore, let's not forget what happened to the banks and auto companies that received bailouts in 2008 and 2009; shareholders either got wiped out completely or saw almost all of their money disappear.

3. Some much-needed steps

While Bombardier announced fourth-quarter earnings, the company also announced a total of 7,000 job cuts.

Of course, this is terrible news for the employees affected, but it does show that Bombardier is serious about cutting costs. It also shows the company isn't constrained by the aid it has already received. Ideally this will be just one step for Bombardier in its quest to become a truly competitive company.

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1. TSX:BBD.B (Bombardier)

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