



## Bombardier, Inc.: Should You Buy the Bailout Hype?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) is up 90% since hitting its January low, and investors are wondering if the rebound can continue.

Let's take a look at the current situation to try to see why the stock has picked up some momentum.

#### Bailout boost

Bombardier's cash flow troubles are well known. The beleaguered CSeries program is more than two years behind schedule and at least \$2 billion over budget.

That has led to a nasty cash burn because the company doesn't get paid for its CSeries orders until the customers take delivery.

Early last year the company was forced to suspend the dividend to preserve cash. It also sold \$1.1 billion in new stock and found buyers for US\$2.2 billion in new senior debt, of which US\$750 million was used to pay back notes that were coming due in 2016.

By late last year it became evident the company needed more money and returning to the capital markets was not an option. The share price had fallen too far to attempt another equity issue, and the company can't afford to take on more debt. Bombardier already has long-term debt of US\$8.9 billion sitting on the balance sheet, which is a lot for a company with a market share of about US\$2.5 billion.

As a result, the Quebec government and the province's pension fund stepped in to help. Quebec handed over US\$1 billion for a 49.5% stake in the CSeries program, and the pension fund provided US\$1.5 billion to acquire a 30% position in Bombardier Transport.

The stock initially popped on the news but soon continued its plunge as the market realized bigger issues are still present.

Why the new optimism?

The recent rally is being driven by expectations that Prime Minister Trudeau will “invest” an additional US\$1 billion to help Bombardier meet its cash needs through the end of this year and possibly into the first part of 2017.

There is little doubt the federal government will pony up the cash, but the rise in Bombardier’s stock might not be justified. More money doesn’t fix the operational and market challenges.

### **CSeries orders**

The latest surge actually began when **Air Canada** signed a letter of intent to purchase 45 CSeries planes. The order isn’t firm and investors shouldn’t consider it as cash in the bank, but it was the first new order since September 2014.

The good news didn’t last long.

Shortly after the Air Canada announcement, one of Bombardier’s earliest CSeries customers filed for bankruptcy protection. **Republic Airways** signed up for 40 CSeries planes back in 2010, but the company is in trouble, and a change in its business model means Republic no longer needs the CSeries planes. Most pundits now expect the company’s CSeries order to be cancelled.

As a result, the net effect is likely to be five extra planes, assuming Air Canada follows through on the deal.

Bombardier currently has 243 firm orders for the jets, significantly below its target of 300.

### **Train woes**

The transport division is supposed to be the pride and joy of Bombardier’s operations, but the company is losing deals in the U.S. to Chinese competitors and dealing with image issues as London and Toronto publicly scold Bombardier for botched rail deals.

### **Should you buy?**

There are a lot of moving parts in the story right now, and that should have investors concerned.

Quebec and its pension fund already have significant stakes in the company. If you add the federal government into the mix, you get three government bodies trying to work together with the Bombardier family to save a struggling business.

It could turn out to be a dream combination, but I have my doubts, and the operational and market challenges still look daunting.

Investors should probably avoid the temptation to chase any short-term rally in the stock.

### **CATEGORY**

1. Investing

### **POST TAG**

1. Editor's Choice

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