Why No Bailout From Ottawa Might Be Good News for Bombardier, Inc.

Description

Led by Prime Minister Justin Trudeau and Finance Minister Bill Morneau, Canada's Liberals unveiled their first federal budget as a ruling party on Tuesday.

The budget is filled with new spending initiatives. There is $3.7 billion earmarked for families with children, primarily through the introduction of the Canada Child Benefit. There is $3.4 billion committed to seniors, including money towards increasing the Guaranteed Income Supplement for low-income seniors and restoring the eligibility age of Old Age Security back to 65.

More than $8 billion has been earmarked for improving the lives of Indigenous People, and $1.9 billion will be put towards supporting Canadian arts and culture. This includes a $675 million investment in the Canadian Broadcasting Corporation.

In total, the government projects a deficit of $29.4 billion for 2016-17–much higher than the original election promises of approximately $10 billion. Deficits will be the norm for a while with projections from the government saying the country isn't likely to return to surpluses until after 2020.

Notably absent from the budget is something **Bombardier, Inc.** (TSX:BBD.B) and its shareholders have expected for a very long time–a bailout from the federal government. Analysts seemed to consider financial assistance from the feds as a virtual lock for months now, assuming it would only be a matter of time until the government gave in to pressure from the company, its unions, and the Quebec government.

Shares of Bombardier are down nearly 4% on early trading Wednesday morning, which indicates that investors are only mildly disappointed with the decision out of Ottawa. Shares would be down a double-digit percentage if investors were really bummed by the news.

As more and more time goes on, it's beginning to look like Bombardier might never get the bailout it's looking for from Ottawa. Will the company be able to survive without it?

The good news

For the most part, 2015 was a terrible year for Bombardier. It started out the year reporting dismal earnings for the fourth quarter of 2014, an event which led it to eliminate the quarterly dividend from common shares. It then had to deal with an engine issue in one of its CSeries test planes, an event which contributed to the latest delay in CSeries deliveries. And as business deteriorated, management then had to deal with pundits saying bankruptcy was inevitable.

But things have improved lately. Bombardier recently announced a large CSeries order from **Air Canada**. It got US$2.5 billion in bailout funds from various parts of the Quebec government. And when it announced full-year 2015 earnings in February, Bombardier reported its cash hoard actually went up compared with the quarter before by close to US$300 million.

As of the end of the year, Bombardier had US$3.17 billion in cash. Add in the US$2.5 billion in money from Quebec's government that it was slated to receive, and the company is looking at a cash pile nearing US$5.7 billion.

CSeries jets are expected to start being delivered approximately halfway through 2016. So by the end of the year, the company should start getting cash flow from those as well.

All of this adds up to one conclusion: it's very possible that Bombardier might not even need cash from the federal government. Perhaps investors should focus on that rather than the disappointment of not getting the bailout. Or perhaps the bailout is still coming in a slightly different form.

This is hardly an argument that Bombardier is out of the woods, because there's still a lot of work management needs to do. CSeries orders need to pick up in a tough environment. Costs still need to be cut, and the debt is too high.

Bombardier is a risky stock; that much is obvious. Perhaps it's a little less risky after not getting federal funds.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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