



Bombardier, Inc.: Will the Stock Rally on News of Federal Aid?

Description

Bombardier, Inc. ([TSX:BBD.B](#)) has asked the federal government for US\$1 billion in aid, and investors are wondering if another round of government funding will finally send the shares soaring.

Bailouts abound

Bombardier has been burning through funds at a fantastic rate in recent years, and cost overruns in its beleaguered CSeries program finally caught up with the plane maker early last year.

The company brought in a new CEO, suspended the dividend, and somehow managed to convince investors to pay \$2.21 per share in an equity issue that raised \$1.1 billion. The bond market also gobbled up US\$ 2.2 billion in new senior notes.

As 2015 progressed, it became evident that extra cash would be needed, but adding more debt or issuing additional shares wasn't an option. Instead, Bombardier went to the Quebec government and its pension fund to find the money.

Quebec handed over US\$1 billion for a 49.5% stake in the CSeries program and province's pension fund coughed up US\$1.5 billion for a 30% position in the rail division, Bombardier Transport.

Now the company is asking Prime Minister Trudeau to kick in an additional US\$1 billion.

Does Bombardier need the money?

Bombardier has indicated it needs about US\$2 billion in funding to get it through 2020, when it expects the CSeries program to begin generating profits.

But investors and taxpayers are a bit confused because Bombardier's vice president of the CSeries program recently told the *Financial Post* that the requested handout from the federal government would be "really just an extra bonus that would be helpful, but is very clearly not required."

What should investors do?

If Bombardier really doesn't need the fed's cash, it might be a good sign. The first CSeries is set for delivery in June, and once the customer, Swiss International Airlines, takes possession of the jet, Bombardier will be paid for the plane, and the CSeries program will officially be off the runway.

An additional investment by the federal government will certainly provide a nice cash cushion, and the market could perceive the move positively and send the stock higher.

Whether or not a fed-induced gain in the share price will hold is another question.

The government isn't going to hand over that much money without some serious strings attached, and the arrival of the feds to the game will mean that three separate government stakeholders will be trying to work with the famous Bombardier family to run the company.

It might work out well, but I'm not holding my breath.

On the operational side, Bombardier is facing a long road to profitability with the CSeries program, and sales are still shy of the company's target. At the same time, the rail division is struggling to fulfill contract obligations and is losing big U.S. deals to the Chinese.

Contrarian types with a high risk tolerance might want to take a small position on the hopes of a rally, but I would avoid the stock. There are simply too many moving parts to the story right now.

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1. Investing

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1. Editor's Choice

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1. TSX:BBD.B (Bombardier)

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