



Bombardier, Inc. Finalizes its \$1.3 Billion Bailout From Quebec: Is the Worst Over?

Description

This week, **Bombardier, Inc.** ([TSX:BBD.B](#)) announced that it has finalized its \$1.3 billion bailout package with the government of Quebec. The purpose of the bailout is to shore up its troubled CSeries jet line, which is more than two years late and \$2 billion over budget.

The project will now be spun out into a partnership with Bombardier controlling 50.5% and Quebec owning 49.5%. To purchase its stake, Quebec will provide two equal payments to Bombardier of US\$500 million on June 30 and September 1.

Bombardier was on the brink of bankruptcy earlier this year, so is the worst over now?

More uncertainty to come

Back in November, we [wrote](#) that Bombardier would “need another bailout in as little as 12-18 months.” The reasoning was simple: this latest bailout only covers half of the CSeries’s expected costs over the next five years. Even with optimistic assumptions, Bombardier management believes that it requires \$2 billion in total to finish the project.

Currently, Bombardier has \$9 billion in debt and \$3.8 billion in cash. If this looks like enough capital to finance the CSeries endeavor, it’s not. In the past 12 months the company has posted a cumulative net loss of over \$5 billion. And according to the U.S. aviation consultancy firm Leeham Co., Bombardier will lose \$32 million on each of the first 50 CSeries aircraft it builds, guaranteeing the project as a cash drain until at least 2018.

It’s a near necessity for Bombardier to secure another bailout, especially given that its access to capital markets is restricted. Prime Minister Justin Trudeau is on record saying that he hasn’t shut the door on the idea of national government aid for Bombardier.

Another deal will be complicated though. According to the *Financial Post*, “the company has balked at demands that its founding family loosen control and issue US\$1 billion in new stock.”

This wouldn't be the first time the Bombardier family has gotten in the way.

In September the company's stock jumped to its highest levels in over 25 years amid rumours that it was selling its rail business unit for \$8 billion. Surprisingly, Bombardier ended up rejecting the proposal by Beijing Infrastructure Investment, saying that the segment was not up for sale. This was a bold stance given the company's funding needs and a bid price that was higher than what most analysts expected.

A risky bet

Bombardier as a company may end up surviving, but that doesn't mean current shareholders will benefit. Given that the company still needs to raise billions in additional financing, the future Bombardier will look very different from its current state, likely through the use of major asset sales or shareholder dilution. An investment in Bombardier today banks on the future of a company with unknown assets and shareholders. That's a risky bet.

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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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