



Long-Term Investors: Bombardier, Inc. Will Never Take Off

Description

Bombardier, Inc. ([TSX:BBD.B](#)) is one of the few Canadian aerospace publicly traded companies—one that has seen its stock plummet over the years by over 90% from its peak and over 50% during the past five years. The company has been nothing but a headache for long-term investors, and this trend is likely to continue for the following reasons.

Continued problems meeting delivery schedules

A company's ability to deliver products to its customers is of paramount importance—even more so in industries such as aerospace. Bombardier's CSeries jet, now touted as a potential success, has been delayed by over two-and-a-half years, resulting in a budget overrun of over \$2 billion and over \$5 billion of write-downs resulting from a soft order base and a number of cancelled orders, as companies have waited to see when the plane will be available for sale.

The company's deadline has shifted numerous times. Its publicly announced first-flight date was set for June 2013 initially, but was moved to September 2013, and then was moved again in 2014 to the second half of 2015. The plane has only recently become available for sale, meaning the company's plan to launch its new Global 7000 business jet in 2018 is seriously in question and remains a tremendous risk to investors.

Government money supporting the business is unsustainable

Many Canadians continue to be amazed by the continued federal and provincial support for Bombardier, considering that many of the previous write-downs on the CSeries jet were actually funded by taxpayer money. In fact, the \$1.3 billion investment made by the Quebec government in the CSeries—which has been lost due to the massive write-downs—has led to a realized loss of \$160 for every man, woman, and child in Quebec.

Many analysts believe that Bombardier is privately considered to be “too big to fail” by the Canadian government and note that this may be one reason why the company might be able to operate in large deficit situations, mitigating risk. I argue that this outlook is unsustainable and is, in fact, a large risk for both Bombardier and the Canadian taxpayer; any shift in public sentiment against government bailouts

could feasibly result in the company's demise.

Management shake-up an impossibility

One of the biggest pet peeves of many institutional funds and other long-term investors is the inability to push change within the organization. The current dual-class share structure of Bombardier means that the majority of voting shares in the company are held by insiders (Clair Bombardier Beaudoin, J.R. Andre Bombardier, Janine Bombardier, and Huguette Bombardier Fontaine).

This structure has led to a stagnation of innovation and internal strife within the company—and is one of the main drivers of the stock price collapse over the years. This is unlikely to change and remains a significant long-term risk for any investor.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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