



Bombardier, Inc. Is Raising Money to Pay Down Debt

Description

To the joy of investors, it appears that **Bombardier, Inc.** ([TSX:BBD.B](#)) is finally making headway in achieving the company's turnaround plan.

The train and plane manufacturer has had a difficult past few years, as delays, cost overruns, and a global shift in demand has forced Bombardier to turn to the bond market and the government to shore up finances. Bombardier has already received US\$1 billion from the Quebec government so far, but nothing from the federal government—at least, not yet.

Federal assistance ... is it coming?

It's been a year since the liberal government was elected, and today marks the one-year anniversary since Bombardier first asked Ottawa for some form of financial assistance. The US\$1 billion injection that Bombardier was seeking has yet to arrive, but conversations between the government and the company have been ongoing.

Both sides have concerns which will likely lead to concessions before any deal is announced. From the government's perspective, job security is likely the primary concern as well as a change to Bombardier's preferred-share structure, which keeps the owner families in a decision-making capacity despite owning a minority of shares.

To Bombardier's credit, the company has a turnaround plan in place and has been forced to make difficult decisions to keep on track for that plan, including cutting 7,500 jobs last month—2,000 of which were in Canada. Those job cuts likely made negotiations with the federal government that much more difficult.

The full scope of that turnaround plan calls for 14,500 job cuts over five years, including 4,800 in Canada. The latest round of cuts last month is the second round this year; the first occurred back in February.

Reality check for Bombardier

Company CEO Alain Bellemare stated recently in an interview that “it’s important to realize that Bombardier was on the brink of bankruptcy in 2015 and it’s important for us to reduce our cost structure to ensure the long-term success of the business.”

While the company has shown improvement over the past year on a multitude of fronts, Bombardier is still not yet on firm ground. Bombardier returned to the bond market this week for the first time in well over a year, seeking to refinance some of the staggering debt it owes.

Bombardier is seeking US\$1.4 billion senior notes at 8.75%. The proceeds will be used to redeem outstanding senior notes at 7.5% due in March 2018 and 5.5% notes due in September 2018.

Analysts agree that refinancing at a higher rate is less than optimal, but Bombardier had little choice; the company needs to save for both the CSeries and Global 700 plane programs.

The Global 7000 had its first maiden flight earlier this month and is now in the process of being certified.

The CSeries jets are already certified and have started production, but deliveries have been slow. Bombardier now forecasts just seven deliveries for the year—down from the 15 originally planned.

Industry pundits note that the CSeries is still a money-losing venture as most new jet productions are; the company expects to finally break even some time in 2020.

Bombardier’s recent quarterly report was better than expected but still far from ideal. In the most recent quarter the company posted a net loss of just \$94 million, which is significantly better than the \$4.9 billion loss reported for the same quarter last year. On an adjusted basis, the loss came in at \$10 million, or less than a cent per share—better than the three-cent-per-share loss that analysts had been forecasting.

While Bombardier’s efforts are encouraging, the company is still a very high-risk investment, and, at this point, investors would be better served looking at other opportunities.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

Category

1. Investing

Tags

1. Editor's Choice

Date

2025/07/30

Date Created

2016/11/18

Author

dafxentiou

default watermark

default watermark