



Bombardier, Inc.: What Should Investors Do?

Description

It has been a rather tumultuous year for **Bombardier, Inc.** ([TSX:BBD.B](#)). The beginning of the year saw the stock drop until it reached a low of approximately \$0.77 per share. However, a series of good news suddenly turned Bombardier from a grave digger to a stock worth considering.

Since then, the stock has appreciated quite handsomely, spending most of the summer months right around the \$2 mark. For investors that had acquired shares right at the bottom, this more than doubled their money in a few months.

Now though, investors are left wondering what they should do with the stock now.

Quite frankly, with the stock having appreciated the way it did, I would feel inclined to take profits where they are. As for potential investors sitting on the sidelines, I think it's best to stay there for the time being. There are multiple reasons why I feel this way.

First, Bombardier is nowhere near breaking even on the CSeries jet. The project wound up costing Bombardier \$2 billion more than anticipated and took two years longer. According to Bombardier CEO Alain Bellemare, the company is still four years out from breaking even on the project.

And orders for the CSeries have not exactly been massive. **Delta Air Lines Inc.** signed a deal for buy 75 jets, and **Air Canada** agreed to buy 45, both with options if the airlines need them.

But the question that no one has been able to answer is, how much of a discount did Bombardier have to give these airlines to get them to purchase the planes? If it's significant, that could seriously eat into any profits that the plane can make and delay breaking even further. And although Bombardier recently signed a deal to sell two planes to the Government of Tanzania for US\$203 million, the time to break even will take a while.

Another reason why I'm hesitant about any sort of investment is because of the voting structure. Bombardier is broken up into two types of shares. The first is the Class A (BBD.A) special voting shares, which account for 53.4% of the voting rights and are controlled by the founding family. The other shares (BBD.B) are what we buy on the market.

This is problematic because investors tend to avoid companies they don't have a say in. And since the family makes all final decisions, it's highly unlikely that a major investor will come in and start buying up shares because they won't be able to force any change that might cause the company to experience serious growth.

There's no denying that Bombardier looks appealing, especially as it releases flashy news statements about new deals coming in. However, it's not selling anywhere near the number of planes it should be, the company breaking even is years away, and even if investors wanted to make changes and vote in new power, the family structure prevents that.

Bombardier could certainly experience more growth, but we have to do a risk analysis and, quite frankly, Bombardier is not worth the risk.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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