



Will Debt Get the Better of Bombardier, Inc. in 2017?

Description

The stock of **Bombardier, Inc.** ([TSX:BBD.B](#)) had an impressive year as more rail and jet contracts came in from around the world. Many analysts believe that the company has strong momentum going into 2017, but there's still a mountain of debt that will hinder the company's ability to grow for the long term.

Will Bombardier's debt issue hurt innovation and long-term growth?

There's no question that Bombardier is a poorly run business. The management team clearly doesn't know how to estimate project budgets or times of delivery; many of Bombardier's projects have been late and way over the original budget. We're not talking a few weeks late and a few dollars over budget—we're talking years late and billions of dollars over budget.

This is simply unacceptable. If Bombardier can't deliver what it promised, then its clients will take their business elsewhere, leaving Bombardier with a tarnished reputation.

Bombardier has almost \$10 billion worth of debt, which is alarming consider this is more than double the company's current market cap. Although there is a ton of debt to pay off, most of the debt is not due before 2018. But 2018 is just around the corner, and Bombardier is going to need to start setting aside cash to pay it off immediately, otherwise the company will risk paying interest, causing the mountain of debt to snowball.

It's clear that there is going to be no budget for R&D as we head into 2017, since most of the cash coming in will go towards paying off its debt. This is why Bombardier laid off over 7,000 employees this summer and plans to cut 7,500 more jobs over the next two years.

There will be no innovation at Bombardier for the next two years, and this is a big reason why I'm not a huge fan of the stock at current levels.

There's still strong momentum for the stock to continue to rally if more orders come in next year, but even if more orders do come in, it's hard to tell whether or not Bombardier will be able to deliver on time; it doesn't have a very impressive track record.

Bombardier is a risky pick, and it can't do much in terms of growth. For that reason, I'm staying on the sidelines.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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