



## Bombardier, Inc. Secures More Government Cash: Is This Good News?

### Description

**Bombardier, Inc.** ([TSX:BBD.B](#)) just announced a \$372.5 million deal with the Federal Government.

Let's take a look at the details to see if the funding changes how investors should view the company.

### Long negotiation

In late 2015, Bombardier secured commitments of US\$2.5 billion from Quebec and the province's pension fund, the CDPQ.

Quebec agreed to invest US\$1 billion for a 49.5% stake in the CSeries jet program, and the CDPQ invested US\$1.5 billion for a 30% position in Bombardier Transport, the rail division.

The funds came as Bombardier faced a cash crisis amid weak demand for its CSeries jets and costly delays in getting the first planes into commercial operation.

At the time, Bombardier also asked the Federal Government for an additional US\$1 billion to help it out.

Negotiations have dragged on for more than a year amid reports that Ottawa wanted changes to Bombardier's dual-class ownership structure in return for aid.

Bombardier obviously didn't want to make that concession.

In the meantime, the company managed to secure two large CSeries orders and delivered its first CSeries jets to customers.

In public statements, management hinted through 2016 that the financial situation had improved enough that it didn't really need any help from Ottawa.

### Politics at play?

The Liberal government had a delicate line to walk on this issue.

On one side, you have Canadian taxpayers who are not overly receptive to the idea that their hard-earned money might be used to support a business that many consider a perpetual money pit.

On the other side, Bombardier is an extremely important provider of high-paying jobs in Quebec, and the Liberals currently hold more than half of Quebec's seats in the House of Commons.

So, the end result is some aid, but much less money that asked for, and it is being provided as repayable loans that will be given over a four-year period.

### **WTO complaint**

In response to the move, Brazil has filed a complaint with the World Trade Organization (WTO) claiming the loan is an unfair government subsidy. Brazil's **Embraer SA** is a major Bombardier competitor, and the company is upset about the extensive aid Bombardier has received from the different levels of government.

Some pundits say the cash infusion from Quebec helped Bombardier beat out Embraer for the large deal it signed with **Delta Air Lines** last year.

Investors shouldn't worry too much about the complaint. It is a common occurrence in the industry.

### **How should investors view the funding?**

The fact that Ottawa is only providing \$372.5 million and is shelling it out over four years suggests Bombardier's cash situation is under control. As such, investors should view it as a positive sign.

### **Should you buy the stock?**

Bombardier is making progress on its turnaround efforts, but management still has a lot of work to do to get the business back on track.

At this point, I would wait for the Q4 2016 numbers and additional 2017 guidance to come out before making a decision on the stock.

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