

Will Bombardier, Inc. Be Set for Lift-Off After Another Government Loan?

Description

Bombardier, Inc. (TSX:BBD.B) received yet another government loan. The company is clearly unable to stick to a budget, but it seems that the government will always be there to bail them out. Canada's government will loan \$372.5 million over four years to Bombardier to use for its jet projects. Although this may seem like good news, the company originally asked for US\$1 billion, so is \$372.5 million Will the loan amount to anything?

It's not a mystery that Bombardier is one a very poorly run business. The management team is incapable of estimating a project's budget, and I believe the company will be forced to ask for more corporate welfare going forward.

I don't think the company will be able to rely on the government for funding forever with the huge amount of controversy surrounding the latest loan.

Aaron Wudrick, federal director of the Canadian Taxpayers Federation, stated, "We have been pushing the government to say no to Bombardier's request ... we're sad to see that the government, in our view, is wasting \$372 million, but it's certainly better than wasting \$1.3 billion. Those who make arguments that this will be different this time will have to compare to their track record over the last 50 years, which is receiving a lot of money from taxpayers."

There's no question many experts are against funding Bombardier. It's come to a point where the Federal Government is basically gambling taxpayers' money on a bet that might not pay off. Bombardier's payoff could be big if it can get out of its sticky situation, but given the company's horrible track record, it's a more likely scenario that the money will never be seen again.

I don't think the \$372.5 million will do much for Bombardier, especially considering it's so much less than what the company needed in the first place.

Bombardier has plenty of orders, but when can it finally deliver on them? The company has a reputation for missing deadlines, and clients have backed out of deals because of this. I would say it's very likely that a large amount of clients will back out and take their business elsewhere once more deadlines start getting missed.

A mountain of debt to overcome

It will be a long road back to profitability, and the massive amount of debt may hinder Bombardier's ability to innovate and grow for the long term. Bombardier has a ton of debt due in 2018, and there is no cash to spend on new projects after the CSeries. Bombardier laid off 7,000 employees last summer, and there will be 7,500 more layoffs over the next few years.

Bombardier is a speculative gamble at current levels, but it's one that the Federal Government is willing to make. I don't see Bombardier lifting off anytime soon, unless the management team can stay under budget for once. If you really want to get in on the action, then I'd advise caution. You could lose your shirt in a hurry.

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