



## Does Bombardier, Inc. Fit in Your Portfolio?

### Description

There are few stocks as confusing as **Bombardier, Inc.** ([TSX:BBD.B](#)). Investors are unsure if this stock fits in their portfolios or, if they already own shares, if they should shed them. That confusion is warranted because the company has experienced bad news after bad news, yet the stock has been on a resurgence since the beginning of 2016, increasing from \$0.80.

Unfortunately, all signs point to Bombardier being a slow-and-painful-recovery stock. While there could certainly be money in it, the reality is becoming more clear: Bombardier has systemic problems that need to be rectified before this company can truly be turned around.

Revenue is in the gutter. Top-line revenue dropped by 12.7% in Q4 to US\$4.4 billion. While the commercial aircraft segment delivered a 9.3% increase to US\$2.6 billion in revenue, the rest of the company is suffering. Its profits are no better with EBIT profit of US\$427 million — down 22.9% from the year prior.

Another problem is that the company can't deliver on its contracts. Metrolinx is considering finding a new supplier of 182 light-rail vehicles after Bombardier failed to deliver the trains on time.

The first train was due in 2014, and it was finally delivered to Metrolinx in 2016. Then there's the deal with the Toronto Transit Commission to deliver 204 replacement streetcars by 2019. Although the deal was signed in 2009, only 14 had been delivered by 2015, and it doesn't appear that Bombardier will be able to get the rest out on time.

This should concern investors because the rail division was supposed to be the crown jewel of the company. While the company focused on the C Series, investors could at least rest easy knowing that the rail division was sitting on US\$31 billion in backlog orders. If Bombardier fails to deliver, those orders could go to another supplier.

Unfortunately, I see little reason to believe that any of these problems will be rectified because of one core problem.

It has a dual-class share structure. The average person tends to trade BBD.B, the Class B shares,

getting one vote per share. However, there are also Class A shares, BBD.A, which offer 10 votes per share. The principal shareholders, four descendants of the founders, collectively hold 79.47% of the Class A shares, plus 1.56% of the Class B shares. This gives them 49.78% of all voting rights. And there are other members of the immediate family that, collectively, have 3.45% of the voting shares.

As you can imagine, when the immediate family controls over 50% of the company, it is virtually impossible for outside investors to force change. With the current market cap, an activist investor could *easily* come in and make significant changes. Unfortunately, with over 50% held by the family, there is nothing that can be done.

Bombardier could have a bright future. It has received more government funds (interest free), and it is finally delivering the CSeries. Unfortunately, there remains too much bad news for the company. And with the share structure the way it is, management is not incentivized to care for the shareholders. That's a nonstarter for me.

Bombardier does not belong in your portfolio. There are other shareholder-friendly companies out there.

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