Bombardier, Inc.: A Mess Worth Avoiding

Description

Although it appears that **Bombardier, Inc.** (TSX:BBD.B) has begun to turn things around, after continuing to read headlines about the company, the reality is that the company remains in a dire situation. Because of this, my recommendation for investors is to avoid this company and, instead, invest your money in other companies.

And there are many reasons for this conclusion …

First, the company continues to experience problems with its rail division. Although an Ontario judge granted Bombardier an injunction against Metrolinx, it doesn't change the fact that it continues to experience significant delays. This $770 million contract required a test vehicle for the new Eglinton Crowntown line by 2014; yet, it has only delivered this now and it doesn't function.

Metrolinx has been trying to find a new vendor, but Bombardier demanded that the Metrolinx first try dispute resolution provisions as defined in the contract. Whether this deal can be saved or not, I don't know, but it's not the only rail problem. It's also severely delayed in delivering streetcars to Toronto. 100 were due by March, but it is likely to only deliver a total of 70 by the end of 2017.

The bad news, though, has a touch of good news which is the rumor that **Siemens AG (ADR)** (NASDAQOTH:SEIGY) and Bombardier might actually look to merge their rail operations. This joint venture would be worth US$10.6 billion, but would give it more power against Chinese firms that have been gaining ground in the United States and hopefully help get Bombardier out of its delay troubles.

Then there's the CSeries, which might have some engine problems. One headline read: "Preventive testing ordered for engines on Bombardier CSeries planes." Essentially, the manufacturer of the CSeries engine has had problems with similar engines, thus necessitating earlier inspections. These inspections cost money and could reduce confidence in the plane, which would only harm Bombardier's sales prospects. This is not yet a big deal, fortunately, but if the inspections come back with problems, the CSeries project could be in for some serious pain.

The third bout of bad news comes in the recent compensation announcement. Despite receiving over $1 billion from the provincial and federal governments, the manufacturer announced that senior management would receive a 50% across the board pay increase. All told, the top five executives received over $43 million last year.

But here’s the real problem with Bombardier. At most other companies, when bad news compounds like this, shareholders can fire upper management and bring on new people to run the company. That’s our right as shareholders. Unfortunately, that’s impossible with Bombardier due to the dual-class share structure.

When you and I buy shares, we’re buying BBD.B, which gets one vote per share. However, there’s also BBD.A, which is equal to 10 votes per share. Collectively, four descendants of the family, the principal shareholders, 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. Add in the 3.45% that other members of the immediate family hold and, voila, the Bombardier family owns over 50%, making it impossible to make a change.

And this, my Foolish friends, is why you don’t want to get tied up in Bombardier’s mess. Until the family gives up control, it is unlikely that things will ever really turn around. Thus, I can’t recommend investors own this stock. It’s true that the company could turn around anyway, but is the risk worth the reward? Not to me.

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Author
jaycodon