



De-Risked or Not, Forget Bombardier, Inc.

Description

Bank of Montreal ([TSX:BMO](#))([NYSE:BMO](#)) analyst Fadi Chamoun raised his rating on **Bombardier, Inc.** ([TSX:BBD.B](#)) from perform to outperform May 29 suggesting Bombardier stock could hit \$5 by 2020. Currently trading around \$2.30, that's 117.4% upside in just three years.

"To be clear, this is a high-risk turnaround story, but we believe that the senior leadership team has sufficiently moved the needle from ongoing restructuring efforts to deliver on 2018 financial targets and the five-year restructuring plan has been meaningfully de-risked," Chamoun's note to clients appeared in the *National Post* Monday after BMO met with Bombardier management.

Although I believe all but the most aggressive investors should avoid Bombardier stock, it is only fair to mention that Chamoun has a pretty good record when it comes to recommending stocks he covers.

TipRanks, a website that ranks analysts, financial writers such as myself, and other blogger types for their prognostication abilities, gives the BMO analyst a five-star ranking and a 16.5% average one-year return for the 118 ratings TipRanks has on record, including Bombardier.

Of the 10,558 experts ranked by the site, Chamoun is 112th on the list. That's impressive, to say the least. Obviously, he's good at what he does.

That doesn't make him right in this instance. However, because his track record suggests he's right more than he's wrong, it's important I explain why I believe no amount of de-risking should make you a believer in Bombardier.

Corporate welfare

There are very few companies in Canada that have so blatantly saddled up to the various levels of government to beg for money. It is much worse than the squeegee kids who wash your windows in exchange for a few coins. At least those kids are showing initiative.

What does Bombardier do after accepting an almost \$400 million interest-free loan from the Federal Government? It proposes cash and stock options for its top executives like they've done anything to

deserve such excessive compensation.

Hand caught in the cookie jar

I [wrote](#) about the problem April 3 before you know what hit the fan, forcing the company to defer more than half the \$33 million it was supposed to receive in 2016 to 2020. More importantly, the deferred compensation will only be paid out if it meets certain revenue and profit targets. As part of this governance mess, Pierre Beaudoin stepped down from his role as executive chairman.

Bombardier brought in CEO Alain Bellemare in 2015, and he immediately turned around and completely remade the executive leadership at the company. That doesn't come cheap, especially when you're talking about something broken like Bombardier.

That part I get.

Proper compensation

Why not lend the executives money to buy stock on the open market? Forget the options nonsense. This way both sides are taking a risk.

Alternatively, don't let anything vest until the company has made three consecutive years of GAAP profits. The argument against that is, you won't get anybody to come work for you. Well, if that's the case, perhaps Bombardier shouldn't exist because a good business will always be able to attract talented people without waving a carrot.

Bottom line

The fact that Bombardier has a terrible record executing its plans should keep most investors away.

"Quite frankly, I think the strategic direction of the company is not where the fault has been," said Charles Lemonides, founder of ValueWorks, a New York-based investment management firm that owns three million shares of Bombardier stock. "Over the years, it's been on execution. And you have people in there today that can execute well."

Bellmare and the rest of his team *are* better than what was in place in the past, but I doubt that's any consolation for Metrolinx, which has been forced to order additional LRT vehicles from **Alstom**, a French manufacturer, to ensure Toronto's Crosstown LRT has vehicles to run on its tracks when it opens in 2021.

Bellemare has been on the job now since February 2015. It's his job to ensure Metrolinx is happy about the state of their arrangement with Bombardier. Clearly, he hasn't done that.

To me, buying Bombardier is like swinging at a pitch three feet out of the strike zone. De-risked or not, forget Bombardier stock. It isn't worth it, no matter what any analyst says.

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