Could There Be Joint Ventures Coming for Bombardier, Inc.?

Description

Rumours are beginning to swirl that **Bombardier, Inc.** (TSX:BBD.B) might be looking to create a couple of joint ventures with European competitor **Siemens AG** (NASDAQOTH:SIEGY) to combine their railroad operations.

According to *Bloomberg*, the two proposed joint ventures would have each company owning a majority stake. Bombardier would have majority control of the rolling stock operations, which is railway code for anything with wheels. Siemens would have majority control of the signal business, which ensures that the trains actually go where they're supposed to.

But why are the two looking to merge?

All reasons point to **CRRC Corporation**, a Chinese state-owned enterprise. This entity launched in 2015 when China North Rolling Stock Company and China South Rolling Stock Company, the country's two largest rail makers, merged. The already powerful companies became effectively unstoppable in their quest to become the world's premier train manufacturer. And with state resources backing it, companies around the world have found it difficult to compete.

By creating these joint ventures, Siemens and Bombardier would be able to offer economies of scale, allowing the joint ventures to charge clients less than when they were separate entities. Further, each company would be able to focus on one business while still reaping the benefits of the other.

Despite the rumours, neither company has confirmed anything about the legitimacy of this deal. Personally, I don't put much stock in these sorts of rumours — not because they're not legitimate, but because more often than not, they don't materialize. Launching joint ventures of this magnitude would likely result in difficulty from regulatory bodies in both Canada, Germany, and numerous other countries across Europe. This deal could be attacked for anti-trust reasons. And then there are the unions that would fight back out of fear of job losses.

Ultimately, while these sorts of moves would likely be positive for Bombardier, until the deal is public and governments have issued comment on it, I remain skeptical of any sort of a deal happening. And frankly, Bombardier has enough problems right now; avoiding this company for the foreseeable future is likely a smart move.

Bombardier announced last week that it was going to miss another deadline to deliver 70 streetcars to the Toronto Transit Commission by the end of the year. So far, the company has provided 40, but the original $1.2 billion order was for 204 to be delivered by the end of 2018. Although Bombardier says that it can deliver all of them by the end of 2019, there is uncertainty over this.

And that's just one example of many other delays that the company is experiencing. My stance on this company has been to avoid the soap opera that is Bombardier. Could it experience massive growth and become a much stronger company? Absolutely. But the family that owns the company, with its controlling stake, just lacks the incentive to make the necessary changes to the company. And so long as that's the case, I will sit on the sidelines.

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Date
2025/08/20
Date Created
2017/07/18
Author
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