



Bombardier, Inc.: What Happens When the Bailouts Stop?

Description

For companies in most industries, the music won't stop unless catastrophic macroeconomic events take place that decimate entire sectors, irrespective of the increased idiosyncratic risk individual companies display. In the case of **Bombardier, Inc.** ([TSX:BBD.B](#)), the concern of many investors and analysts relates to how the company would fare in a world without bailouts, given how close the Canadian transportation manufacturer has been to default in the past.

The question of how the Canadian government will react to recent events, which implicated one of Bombardier's European offices in an alleged aggravated bribery scandal, remains to be seen, and investors are now faced with an uncomfortable question with respect to Bombardier: What happens if and when the bailouts stop?

The reality is that Bombardier's stock price has some measure of government support built into the underlying value of the company's equity. The transportation manufacturer has proven its ability to lobby the government for support, and as such, investors have continued to expect that if (more likely, when) the time comes, the Canadian government will step in to save the jobs Bombardier provides, thereby saving votes and securing goodwill among the great people of Quebec.

The question of whether the government consistently bailing out a failing business is the best use of government funds (more so than for health care, education, or low-cost housing) will remain a huge question mark in the minds of taxpayers outside areas directly affected by Bombardier. The most recent scandals made public in Swedish court now provide much more ammunition for taxpayer groups and others to begin demanding that future bailouts be halted, and prior bailouts be paid back to taxpayers, lest an unscrupulous corporation continue to siphon taxpayer money into the netherworld.

Bottom line

The recent legal issues Bombardier has faced are likely to affect the public's trust of the Canadian transportation manufacturer, and therefore limit the ability of the government to step in next time. With Bombardier's deliveries for its CSeries program significantly below investor expectations, and its rail division losing contracts due to the aforementioned scandal currently playing out (not to mention a

separate World Bank investigation which is ongoing), the list of catalysts that could potentially take Bombardier to the brink are extensive. For those investors pricing in a “government put” into BBD.B shares, I suggest taking a look at what the share price would be without government support.

My calculations show it's not pretty.

Stay Foolish, my friends.

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