



Azerbaijan, Now South Africa: How Deep Does the Alleged Corruption Go With Bombardier, Inc.?

Description

Following the in-depth coverage on the recent **Bombardier, Inc.** ([TSX:BBD.B](#)) scandal, in which an employee of the Canadian transportation manufacturer has been implicated in Swedish court in an investigation regarding his role and the company's role in the bidding process for a lucrative contract in Azerbaijan (covered here on the [Fool](#)), perhaps it is no surprise that other governments around the world are taking a closer look at deals done between government-run transportation authorities and Bombardier. After all, alleged bribery and corruption at the highest levels of state-owned enterprises is not something that many politicians will stand for (those in power, and especially those seeking election).

In the latest investigation into Bombardier's dealings with government-run enterprises, the South African government has announced that a parliamentary committee will be commencing an investigation into a 2014 deal in which the South African state-owned freight company, Transnet, entered an agreement with four companies, including Bombardier, to purchase more than 1,000 locomotives, approximately 240 of which were awarded to Bombardier.

The South African government has indicated it wants the parliamentary committee to investigate if the transaction was in the best interest of South Africans, providing jobs and revenue domestically, given the international nature of the deal. The opposition government, however, wants the probe extended to look deeper into the prices paid in the transaction, questioning whether corruption or the bidding process impacted the price taxpayers paid for these trains.

Similar to the Azerbaijan deal in which approximately 85% of the purchase price was paid by the World Bank, the South African deal saw approximately 35% of the deal financed up front by Export Development Canada. Bombardier has relied on continued domestic and global government support in the form of bailouts as well as financing in order to make these transactions possible, and while the Canadian government has continued to stand by Bombardier's side, despite probes into alleged corruption and bribery at the company's highest levels, the view that the World Bank and other governments has taken may begin to change should Bombardier's global reputation continue to be negatively impacted.

The deal, worth US\$1.2 billion (approximately \$1.32 billion at the time) to Bombardier is in no way small potatoes for the Canadian transportation company — the amount in question equates to approximately 1.5 times the company's operating cash flow in 2014 (\$850 million) — an amount which has since deteriorated in recent years to \$20 million and \$140 million in 2015 and 2016, respectively.

With the company's train segment providing the bulk of the company's operating cash flow, buffering losses by continuing to provide higher operating margins than other operating segments, the continued scrutiny Bombardier has been receiving of late should be very concerning for shareholders.

Bombardier's cumulative five-year free cash flow deficit of \$5.79 billion has remained a sore point for many investors; should continued scrutiny lead to a reduction in the amount of locomotive/train business Bombardier is able to secure globally, either with or without World Bank or Export Development Canada, I don't see how a positive stock price trajectory for Bombardier is possible in the near, medium, or long term.

Bottom line

Perhaps it is too early to say definitively that Bombardier's reputation as a global supplier of trains, planes, and other transportation-related equipment has been damaged beyond repair; that said, recent investigations into alleged bribery and potential corruption at the state-level by the Swedish court and the World Bank in the case of the Azerbaijani deal, and now the South African government with the Transnet deal, should provide investors with a huge red flag to consider when attempting to value the company's (very negative) free cash flows moving forward.

Stay Foolish, my friends.

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