



Bombardier, Inc.: Is Investor Excitement Warranted?

Description

As the year progresses, investors are getting more excited about what the prospects are for **Bombardier, Inc.** ([TSX:BBD.B](#)). Year to date, shares are up 31.55%, and there's overall enthusiasm that shares will continue rising.

There are a few reasons why shares are up.

First, the U.S. International Trade Commission [disagreed](#) with the Department of Commerce's 300% tariff on all new planes Bombardier ships to the United States. **The Boeing Co.** had sued because it believed that Bombardier had done unfair pricing on its CSeries when it sold planes to **Delta Air Lines Inc.**

Second, Bombardier has a new partner to build the CSeries, which only angered Boeing even more: Airbus SE. The European company agreed to buy 50.1% of the CSeries project and move production to its Alabama factory. Although this isn't a requirement anymore, since the tariffs don't exist, Airbus is a far better operator than Bombardier.

Third, 2018 is the year that Bombardier aims to deliver the first of the 75 CS100s that Delta has ordered. This is a big win for Bombardier, because it means that cash is actually going to be flowing into its coffers. And as the planes start flying, I anticipate other airlines will get interested in the CSeries.

So, it's been a great few months, and that has led to investors buying up shares left and right. But is this excitement warranted?

There are two reasons I don't believe the excitement is warranted.

First, Bombardier is [historically late](#) with the delivery of anything. The CSeries was delayed by a few years and was far over budget, which is part of what contributed to the company's current problems. Is Bombardier actually going to deliver those planes to Delta on time?

Then there's its rail division. Toronto had signed a deal with Bombardier to deliver 204 new streetcars by the end of 2019. It has only delivered 59 of the 204, but the contract originally called for 148 by the

beginning of 2018. I don't see how those deliveries will get done in time.

And then there's the LRT deal with Metrolinx. This deal called for 182 new LRT vehicles, but due to significant delays, the contract was revised to only have 76 built with the remainder built by French competitor, Alstom. This also means that the contract value went from \$770 million to \$392 million with serious financial penalties if Bombardier is late again.

Normally, when a company is not operating efficiently, investors replace management and demand changes. That's where activists come in. But this leads to the second reason I am not terribly excited about Bombardier.

The ticker that we buy is BBD.B, which is the B-Class shares, whereas there are also A-Class shares. Four relatives (principle shareholders) of the founder collectively hold 249,449,910 A-Class shares (79.47% of the total) and 30,211,319 B-Class shares (1.56% of the total). That means that the four of them have 49.78% of the voting power (class A has far more voting weight than class B).

Then there is the immediate family of the principle shareholders, who hold an additional 3.45% of the voting power. That means between the principle shareholders and their immediate relatives, the "family" owns 53.23%. So long as they always agree, there is nothing the average investor can do.

Those two reasons are why I have always avoided Bombardier and why I will continue to avoid it. That doesn't mean it's not worth buying, but I like to believe I have a say in the companies I own. And in my eyes, there are other opportunities in the market.

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