



## Can a Bribery Probe Derail Bombardier Inc. (TSX:BBD.B)?

### Description

When [I last wrote](#) about **Bombardier Inc.** ([TSX:BBD.B](#)) in April, there were plenty of signs that the stock would continue its impressive run. Did it?

Yep, its stock has risen almost 22% since! Year-to-date, the company has posted outstanding returns of 64% [hitting 52-week highs](#). Bombardier had plenty of momentum in the first half of 2016. Why?

After years of delays on its maligned C-Series project, government buyouts and plenty of negative press coverage, sentiment began to change. With a new CEO at the helm and a renewed focus on cash flow, there was reason for optimism. Analysts also bought in and as of last count, 13 rated the stock a buy!

How many rated the company a sell? None. That alone should tell you how far Bombardier has come.

Unfortunately, Bombardier is now in the news for all the wrong reasons. According to recent reports, Bombardier's US\$1.2 billion dollar contract with South Africa's Transnet is being probed for potential bribery. This wouldn't be the first time a prominent Canadian firm was embroiled in such controversy. **SNC-Lavalin Group Inc.** has faced a string of fraud and bribery claims, and it's has taken over three years for the company to shed its negative image and for its share price to recover.

Will the latest probe stop Bombardier's momentum in its tracks?

### The details

The probe centers around a 5\$ billion locomotive project, the largest in South Africa's history. The contract, awarded in 2014, was split between Bombardier, **General Electric Company**, China North Rail and China South Rail. At the center of the controversy are the Guptas brothers, who are linked to one of South Africa's biggest corruption scandal. In fact, the brothers have warrants out for their arrest and had significant influence at Transnet.

How does this tie-in to Bombardier? In 2015, Bombardier received a \$US450 million loan from Export Development Canada (EDC) to finance its \$1.2 billion deal. A couple of weeks before the Transnet

deal, the Guptas received U\$41 million in financing from the EDC to buy a luxury jet from Bombardier. Suspicious? When there's smoke, there's fire.

### **Questionable payments**

And if that isn't enough, there's a significant reason for concerns around questionable payments to Bombardier. For starters, the company has received 38% (US\$450 million) in advance payments on the project. The contract only authorized 27% in advancements. Almost five years after the initial contract, Bombardier has only delivered 13 out of the 240 locomotives under contract. Wouldn't you be concerned?

Likewise, Transnet paid Bombardier and China North Rail \$60 million each to relocate their locomotive assembly facilities to Durban. The payment was not verified, nor was it approved by Transnet's auditors. At issue is the fact that an earlier report by China North Rail pegged the relocation would cost less than \$1 million. Last year, a Transnet auditor found significant red flags with the payments for relocation.

### **Potential impact**

It's important to note that no charges have been laid against the company. However, the news can potentially derail Bombardier's stock price. The South African law firm who is conducting the investigation has suggested the government should suspend the contracts.

Bombardier is still owed approximately \$750 million under the terms of the contract, and a suspension would impact the company's top line. More important, however, is the company's reputation is at stake.

It has worked hard to successfully improve its image. Being linked to bribery charges is not good and can negatively impact future contracts. Stay tuned!

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