Bombardier Inc (TSX:BBD.B) Is Cutting 5000 Jobs: Time to Sell?

Description

It's been a rough year for **Bombardier Inc** (TSX:BBD.B). Still reeling from the CSeries fiasco, the stock is slightly down year-to-date. Although Bombardier had nearly doubled from January to mid-summer, it began to fall precipitously in August after a disappointing Q2 earnings report.

The good news is that Bombardier's Q3 earnings were released last week, which were pretty solid for the most part. However, news that the company would be laying off 5000 employees has some worried that the company is nickel and diming to save a dwindling enterprise.

How valid are these concerns?

First we need to look at what caused Bombardier's fall from grace in the first place.

A rough few years

Bombardier, which had been a top TSX performer in the 90s, started experiencing problems in 2015 with its CSeries jet. The project suffered a number of cost overruns, resulting in years of dwindling earnings. Eventually half of the project was sold to **Airbus**, which helped Bombardier stay solvent, but the earnings woes continued for some time.

By the fall of 2018, Bombardier had returned to growth. The earnings report released on November 8 showed that the company had grown revenue by 5% and EBIT before special items by 48% year over year. However, revenue was at the lower end of guidance, which raised concerns. It was around this time that Bombardier announced the job cuts (and sale of two business units).

Rationale for the job cuts

Bombardier CEO Alain Bellemare said that the cuts were part of a plan to rein in costs, tighten operations, and reduce debt. There is no doubt that cuts can have these effects. However, we need to turn again to the matter of revenue. Bombardier's revenue was up just 5% year-over-year in Q3.

In the quarter before that, it actually declined from the year before. Clearly, this isn't a company that's experiencing frothy growth, which raises the question of whether cuts are merely a short-term tactic to produce strong earnings in what is fundamentally a shrinking enterprise.

Future plans

Bombardier's short-term plan is to increase its revenue by 10% in 2019, which would bring it to a total of $18 billion. This would be strong growth. The question is: will Bombardier's cost-cutting strategy will help achieve this? Although cutting jobs and business units can increase earnings, the effect on revenue is often negative, because fewer workers and productive units means less output. We'll have to wait and see what Bombardier pulls it off, but for now I'm skeptical.

Bottom line

Bombardier has had a rough go of it in the 2010s, but finally seems to be turning it around. Revenue and earnings *are* up, but it's an open question as to whether they're trending upward enough to save such a debt-addled enterprise. Job cuts and business unit sales will certainly help with Bombardier's debt problem. But whether they will restore the company to its former prosperity remains to be seen. For now, if I owned Bombardier shares, I'd try to cut my losses.

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