



Why I'm Avoiding Bombardier Inc. (TSX:BBD.B) Forever

Description

There's no dancing around it: **Bombardier Inc.** ([TSX:BBD.B](#)) is a mess.

Last week, during the latest of many lowered expectations over the years, the company announced that it was unlikely to meet its cash flow projections. Management announced a number of initiatives that they believe will help the beleaguered company improve its balance sheet, including the sale of the turboprop division and a training business. Some 5,000 jobs will also be cut, which will eventually save \$250 million per year.

Needless to say, investors were skeptical. They sent shares lower, and the decline hasn't stopped. Bombardier's class B shares are down to \$2.15 each as I write this — a stunning 43% decline in just a month. Remember, the stock was over \$5 as recently as this summer.

Needless to say, investors are skeptical that the moves will really put a dent in the company's massive debt, which is the chief concern here.

Why I changed my tune

Back when Bombardier shares were close to \$1 each in early 2016, I was actually [fairly bullish on the company](#). Management was doing all the right things, including cutting costs and issuing stock to help shore up the balance sheet. It had attracted big investments from various parts of the Quebec government. And the CSeries division was finally showing life after a big order from **Air Canada**. Another big order from **Delta Air Lines** came shortly after that.

Back then, Bombardier owed approximately US\$9 billion to creditors, although that was somewhat offset by more than US\$3 billion in cash.

Early 2016 truly was rock bottom for Bombardier, but things have improved significantly since then. First, an investment was secured from the federal government, and the company finally started delivering CSeries jets after years of delays. It partnered with Airbus, which threw all its might behind the CSeries. It even went as far as to rename the CSeries the A220. The future was indeed starting to look bright.

Despite all of these improvements, the balance sheet stubbornly hasn't improved; it's actually gotten worse. Debt has increased slightly to US\$9.5 billion, while the cash pile has fallen to US\$2.3 billion. The cash hoard fell despite the company issuing some US\$500 million worth of new shares.

During a relatively optimistic time, the company was unfortunately still unable to improve its debt situation.

A collection of terrible businesses

A friend and I were discussing Bombardier the other day, and I loved his quote.

"Imagine going to all the work of designing a plane, dealing with hundreds of different parts suppliers, getting government approval, doing test flights, building a massive factory, and the million other things I'm forgetting for less than 5% operating margins. I can't think of a worse business."

The rail division is slightly better than the various airplane divisions — I'll accept that. It's clearly the crown jewel here. Everything else barely makes a profit in an era in which aerospace demand is relatively strong. What's the company going to do during the next recession? Can it even survive the next rough patch?

Just avoid Bombardier

Many investors blame the current woes on Bombardier's management team, but I don't. I believe they're doing the best they can with a bad situation.

No matter how many layoffs the company has, the bottom line is this; for whatever reason, Bombardier just can't build planes and make a decent profit. I suspect it'll never be able to do so while dealing with such a large debt burden. Focus your energy on better companies and forget about Bombardier. Forever.

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Author

nelsonpsmith

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